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The Manager

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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 2018

I attach a copy of the transcript from the Analyst and Media briefings held on Thursday 14 February 2019, in relation to Telstra's results for the half-year ended 31 December 2018, for release to the market.

The transcript includes the following clarification to the verbatim on page 29:

KANE HANNAN:
Thanks for the follow-up, guys. Just wanted to confirm, that discussion around the retail margin falling down towards zero in the NBN world, is that encapsulated in the $3 billion nbn headwind that you guys have previously spoken to?

ANDREW PENN:
Ahh No. Not completely, Kane. Because when we did that analysis, we assumed that the – there's an aspect of it – but we assumed that, ultimately, there would be a residual margin in that business around about, you know, ~~mid-teens. Which is what we've sort of, historically, said as a reseller, that's the sort of margin that you would expect to achieve.~~ [in the single digit EBITDA however, this is less than the mid-teens we would expect as a reseller].

Yours faithfully

Sue Laver
Company Secretary

ROSS MOFFAT:
Good morning and welcome. My name is Ross Moffat, Telstra's Head of Investor Relations. Welcome to our 2019 half year results presentation. Before we commence, on behalf of Telstra, I'd like to acknowledge and pay my respects to the Wurundjeri and Bunurong peoples of the Kulin nation, and traditional custodians of this land we're meeting on. And I pay my respects to elders past and present. After presentations from our CEO Andrew Penn and CFO Robyn Denholm we will be taking questions from investors and analysts on the line. And with that I'll hand over to Andy.

ANDREW PENN:
Well thanks very much, Ross, and good morning and welcome everybody to Telstra's results announcement for the half year ended 31 December 2018. Our results reflect the dynamic and challenging market in which we're operating, with significant changes underway right the way across the industry. We continue to achieve strong customer growth in both mobile and fixed, as well as in our fast-growing Internet of Things business.

We've also made great progress on our T22 strategy. Notwithstanding this, and as expected, our financial results also reflect the significant and progressive impact of the rollout of the nbn and the intense competition in the market which is reducing ARPUs in both fixed and mobile. With around 55% of Australian premises now connected to the nbn, we're more than halfway through. This means we've absorbed to date 1.7 billion of the at least $3 billion of the estimated negative impact on recurring EBITDA which will occur by the end of the rollout of the nbn. However, despite these short term challenges, we remain very positive about Telstra's prospects for the future. Demand for telco products and services continues to grow and telecommunications infrastructure is only going to increase in importance over the next period of time. As we have seen with the 3G and 4G product cycles in the past, we believe we will ultimately see industry ARPUs start to increase as we transition to 5G. We also hope there may be some improvement in nbn wholesale prices.

Finally, we're making good progress on our program of investment and to our T22 strategy and we are leading the market, if not the world, in the early stages of 5G. I will take you more through the progress of these shortly.

First thing however, let me take you through the key financial results and achievements in the half. I will then hand over to Robyn before we turn to Q&A. Total income for the half decreased 4.1% to $13.8 billion on a reported basis. Excluding one-off nbn income, total income decreased 1.8% to $12.8 billion. EBITDA decreased 16.4% to $4.3 billion on a reported basis. Excluding one-off nbn income and restructuring costs, EBITDA decreased 11.2% to $3.9 billion. Consistent with Telstra's revised dividend policy, the Board has resolved to pay a fully franked interim dividend of eight cents per share. This comprises an interim ordinary dividend of five cents per share and an interim special dividend of three cents per share. Now Telstra's circumstances today are very different from that which they were before the nbn. We are no longer the national wholesale provider in the country. That part of our business, the revenues, and the value from that part of the business is being transferred to the nbn, and that is reflected in our income, in our profit, and in our dividends. Whilst we have offset some of the impact of the nbn and will continue to do so through our productivity and other initiatives, these efforts have in turn been also mitigated by the downward pressure on industry margins from increased competition. Before the nbn rollout, Telstra was a $10 billion a year EBITDA company. The negative impact of the NBN, as I've said many times, is at least $3 billion in annual EBITDA. Post the rollout of the nbn, EBITDA needs to be in the order of $7-8 billion to pay a dividend around 16 cents under our dividend policy of paying out between 70 to 90% of earnings taking into account our balance sheet parameters and our free cash flow.

Our T22 strategy is aimed at improving our underlying earnings and mitigating the impact of the NBN, although clearly this is subject to the influence of the broader economic, competitive, and regulatory environment in which we operate. I do understand and I do appreciate what a lower dividend means for our shareholders.

However, at the same time, we also have to acknowledge and accept the realities of the nbn and the structural change it means for Telstra. We also have to accept that if we are to invest for the future and be successful, which is what we're doing, that our historic practice of paying 100% or sometimes more than 100% of earnings in dividend was unsustainable.

Let me turn then to the key operating highlights for the half year. One of the key features from the results today is a continued growth in customer numbers. During the half we added 240,000 net new mobile services across retail postpaid, Internet of Things, prepaid handheld, and mobile broadband. We added 239,000 net retail postpaid mobile services including 115,000 from Belong Mobile. We launched Belong Mobile as part of a multi-brand strategy a little over a year ago and we're very pleased with our performance to date. We also added 261,000 net new Internet of Things services.

Telstra's total retail mobile services now stand at more than 18 million, with more than 8 million postpaid handheld. We also added 125,000 wholesale mobile services bringing total wholesale services for the company to 1.1 million. Revenues from our mobile business were up 2.4% compared to the same period last year. Within this, mobile services revenues were broadly flat with the growth coming from hardware due to increased mobile handset pricing and also increased volumes. We also saw good revenue growth from our Internet of Things business up 36%. We are now connecting on average 2,000 Things every single day to our IoT networks including vehicles, machines, infrastructure, smart meters, and all sorts of sensors. IoT is an exciting new growth opportunity for us, particularly as we prepare for 5G.

In fixed we added 64,000 net new services including 22,000 from Belong. This brings the total retail services to 3.7 million, and it also brings our total services in Belong across both fixed and mobile to almost 400,000. In the half we added 308,000 new nbn connections with an estimated nbn market share, excluding satellite, of 51%, taking the total number of nbn connections from Telstra to date to 2.3 million.

Turning to costs, we continue to make progress with our cost reduction program during the half. Underlying fixed costs were down 4.2% or $162 million with approximately $900 million in annualised cost reductions achieved since the program began in 2016. We propose to further accelerate our productivity program in the second half and into the financial year of 2020 and we remain on track to achieve a cost reduction target of $2.5 billion per annum by FY22. By the end of this financial year, total operating expenses excluding restructuring costs, are expected to be broadly flat. From then we expect total costs to decline with reductions in underlying fixed cost targeted to offset increased nbn network payments and hardware costs.

Turning to the important area of customer experience. I'm delighted to report that the investments that we have been making and the activities under our T22 strategy are having a real impact for our customers. Over the half, Episode NPS improved two points whilst Strategic NPS improved three points. Over the 12 months since December 2017, Episode NPS improved six points as Strategic NPS improved nine points. This is very solid momentum, although I know we still have much more to do to improve the experience for our customers.

Let me now turn to our T22 strategy. There is no doubt that this is a critical time, not just for Telstra, but for the telecommunications industry globally. Last year, as the impacts of the nbn and competition became more profound, we recognised that we needed to do even more in response to the market dynamics. We needed to accelerate our rate of change. We needed to leverage the investments that we have been making. And we needed to lift our level of aspiration in delivering simpler, more flexible products and services with a great digital experience for our customers and importantly, leaving our legacy behind. That is what T22 is all about. It's about simplifying the business and reducing our cost base for the future. It's about maximising the value of our infrastructure assets. It's about positioning us for the 2020s and beyond and to take advantage of the significant opportunities that are coming around the corner from growing demand, technology change, and the arrival of 5G.

The strategy is built around four key pillars and two critical enablers. Building the networks of the future and digitisation. Let me then detail the progress that we have been making on T22 this half. Firstly, pillar one. Now, there are essentially two elements to this pillar, across both mass market - which is our Consumer and Small Business sector – and Enterprise businesses. Firstly, radically simplifying our product offerings, and secondly creating new digital experiences aimed at eliminating customer pain points and driving growth. One of the biggest customer pain points has always been the fear of excess data charges.

This year we removed that pain point, leading the market with our Peace of Mind mobile data plans. We now have 489,000 Telstra customers enjoying the benefits of Peace of Mind data. In the half we also launched more flexibility for customers through our new consumer Choice plans so consumers and customers have to take and pay for the services that they want. Postpaid mobile and broadband customers can also now enjoy, exclusively, Kayo - Foxtel’s new sports streaming service which offers unparalleled range of live sport and extra content.

In October we launched the next generation of our Smart Modem, a technology that includes a 4G chipset which also now enables voice. The hybrid modem for customers enables those customers to stay connected via the mobile network if their fixed service is not yet connected, or if there is a service interruption. We have more than 870,000 customers using the Smart Modem and it has made a massive difference to their experience. We've seen a 77% drop in calls and complaints from customers using the Smart Modem.

Improvements to our 24x7 App, our Codi virtual assistant, and other digital experiences have also helped improved customer experience. Incoming calls to our contact centre totalling 14 million were more than four million less than last year. That's a 20% reduction on the prior period. We also saw an increase in the number of digital sales interactions with our customers and small business sector which jumped 6.2% to 9.7% in the half as more and more customers learnt of our improved online experiences. This half we also announced major enhancements for small businesses, including new solutions and services designed to add more flexibility, reliability, value, cost certainty, and expert services and advice. These include unlimited data as standard on all broadband plans, 24/7 concierge tech support, a mobile broadband backup, as well as Telstra Platinum for business, a new prioritised IT support solution.

We also continue to make good progress in reducing complexity in the number of plans that we offer. During the period we reduced the number of Consumer and Small Business plans to 120, well on the path towards our target of having just 20 plans in market by the end of the financial year. The balance of the 1,800 Consumer and Small Business plans will be eliminated by FY21 as we migrate customers over to a new products and services on our new technology stack.

In Enterprise we launched Connected Workplace, delivering unlimited voice and video, instant messenger, a managed private network, and internet protection on a per seat basis and all on one simple bill for these customers. These services are being delivered through our new Enterprise IT stack. The number of Enterprise plans active in the market was also cut by 13% as we continued to remove and unravel complexity for those customers.

Across the other T22 pillars, we have also made good progress. Let me now turn to those. Pillar two is focused on establishing a standalone infrastructure business unit to drive performance and create optionality post the nbn rollout. Telstra InfraCo is now up and running and segment reporting is included in the financial accounts that we are releasing today. High level SLAs detailing the asset and services provided by InfraCo have also been developed and Telstra InfraCo is on track to be fully operational by the end of this financial year.

Pillar three is aimed at greatly simplifying our structure and ways of working to empower our people and serve our customers. Here we are fundamentally re-engineering how we operate. Progress this half included putting in place a new top-line operational structure and leadership team. Also removing complexity and management layers to empower our teams to make decisions closer to our customers. Our ways of working are also being simplified and realigned to increase the focus on customer service, but also on product leadership and on breaking down siloes within the company. During the half we removed 3,200 roles from the company, of which 1,500 were management roles, and we also removed 1-2 layers of management. This is in line with our expectation that ultimately our T22 strategy will lead to a net reduction of 8,000 jobs over the next three years, with 9,500 existing roles being impacted, partly offset by 1,500 new roles being created. Now there is no doubt that this for me is the hardest part of the changes we have to make. I feel deeply when our people are personally impacted, and I'm committed to both be transparent with our teams of what this means for them, and to provide all of the support that we possibly can for the people that are affected. Also, we have to put this in context with the structural changes happening to our business and within the industry. nbn is a company that did not previously exist and to which we are now transferring a material part of our business. It itself now employs almost 7,000 employees and 24,000 contractors.

The final pillar of our strategy is to deliver an industry-leading cost reduction program and portfolio management. Our underlying fixed costs were down $162 million in the half, with nearly $900 million of annualised cost savings delivered since FY16.

We intend to accelerate our cost reduction program in the second half of FY19 and into FY20, and we remain on track to deliver our target of a reduction in underlying fixed costs of $2.5 billion on an annualised basis by the financial year 2022. Robyn is going to talk to you further about our cost reduction program in her section. The other aspect of pillar four is to continue our active program of portfolio management, to monetise up to $2 billion of assets by the financial year 2020. In this regard, we have restructured Telstra Ventures and exited Ooyala, and we are well progressed on other initiatives to achieve this target.

As you have heard me say before, T22 is built on the foundation provided by the up to $3 billion of strategic investments that we announced in 2016. This investment has been in creating the networks for the future and digitising the business. We remain on track to realise the benefits from this program with $2.6 billion already invested, including 1.6 billion in networks and a billion in digitisation. From this we have so far delivered annualised EBITDA benefits of $212 million. More importantly, however, T22 would just not have been possible without these investments and we expect them to continue to contribute much more in terms of benefits as we leveraged them into our T22 program. The investments will be largely complete by the end of the current financial year, but in the meantime let me add some colour to what we have been doing in this half.

The digitisation program includes creating new technology stacks, one for mass market and one for Enterprise, but with shared capabilities across both of them. Now this is a huge undertaking and probably the largest IT transformation in our history. It is also critical for the success of our business in the future. The enabling technology includes new CRM systems, provisioning, billing, and e-commerce systems, and is directly linked to the improved customer experience, including increased digital sales and reductions in call centres that we're already starting to see. We have done most of the heavy lifting on this for our mass market, which is our Consumer and Small Business customers. We've stood up the infrastructure and the platforms. We've implemented Salesforce CRM. We are upgrading our e-commerce systems. And we will be rolling these out progressively over the coming months with the first capabilities reaching the hands of our employees and customers next month.

For our Enterprise customers we are even further progressed with products already in the market leveraging its capabilities. For example, the Telstra Connect platform enables businesses to essentially self-manage many of their services directly and digitally. Over 1,600 of our 18,000 Enterprise customers are now using this platform and we've seen a 13% reduction in the number of calls to our call centres on a six month rolling average basis.

On the network side, we continue to focus on network superiority to ensure that we continue to lead the industry as we develop the next generation of software defined networks and 5G. This half we extended our coverage by adding another 132 new mobile sites including those delivered for the Federal Government's Mobile Blackspot program, and we completed upgrades at a further 800 with 313 small cells also being added. Service reliability and resilience of course remains a critical issue for our mobile customers, and a key network differentiator for Telstra. Since financial year 2017, mobile outage hours have been reduced by 69% as a result of our ongoing network investments. Telstra also continues to lead the market in key speed benchmarks and other quality benchmarks for networks. Recognition for the speed and quality of our network this half included winning P3, winning Systemics network surveys for Australia's best mobile network operator. The 2018 Ookla speed test[1] for both the fastest mobile network and the fixed network in the country. And the Netflix speed index for the last 12 months in a row.

Perhaps the most significant network achievement in this half was launching 5G into the network and putting this technology into the hands of our customers for the first time. An incredible amount of work and industry leadership has been required to get us to this point of this exciting new technology. The work has involved a close relationships with key technology partners such as Ericsson and Qualcomm, and it means that we are very much the global forefront of 5G and we'll have first-mover advantage. Our 5G preparations are extensive and included: completing a string of world first at our 5G Innovation Centre on the Gold Coast, securing 5G spectrum at the December spectrum auction, rolling out 5G into our network with more than 200 5G mobile base stations already live nationwide, and making sure that we have the handsets from the get go after announcing exclusive access partnerships with a number of key global providers in January.

5G will be transformative for the industry and offer significant opportunities for revenue growth. We believe as 5G rolls out, as with 4G, customers will be willing to pay more to access the new technology and the very significant benefits that it brings for them. 5G will also enable new revenue streams that do not even exist today. On top of this, 5G will deliver immediately capital efficiency by reducing the costs per bit of data travelling over a network. It will also have a positive effect on our already market-leading 4G network as customers move across, and this will free up capacity on 4G. Telstra's global leadership on 5G means our customers will be among the very first in the world to enjoy this new technology and it will cement mobile as the engine room for our business into the future.

Before I close, I would like to take you quickly through our T22 scorecard. I've touched on many of the measures as I've stepped you through our T22 strategy, but let me just call out a couple of things that I think may be worthy of further comment. For context, we will continue to use this scorecard to track execution and provide transparency on how we are delivering the key outcomes of T22. We will do this in six areas covering customer experience, simplification, network superiority, employees, cost reduction, and our balance sheet. Importantly, the scorecard represents a very strict view of our progress and it is reviewed by our auditors. Each

[1] Verbatim "2018 speed test"

outcome has very clear and tangible measures to which we are holding ourselves to account.

Our dedicated Transformation office is also in place to plan, track, and report on execution against the specific outcomes. As you can see, three T22 milestones have already completed, including our network is 5G ready and we have in place defined SLAs from our Telstra InfraCo which we've now set up. Of the remaining 26 measures, 17 are on track for delivery and we have made good early progress on our further five which are those that are marked in grey but which it is too early to measure. In customer experience we're on track with Strategic and Episode NPS, and we continue to remove many of the older legacy applications in our technology environment, as such as billing and in provisioning CRM and e-commerce systems come online. Four measures in our T22 scorecard are rated amber. Firstly, on our new technology stacks, as I mentioned, we are very well progressed. For Enterprise the stack is already live with our customers and starting to experience the benefits. For the mass market, we're extremely well progressed, although there are a couple of aspects which we'll roll forward into Q1 and Q2 of FY20 as we continue to adjust our rollout profile under our Agile methodology. Whilst therefore on a literal basis we're calling this amber, we are very confident in the progress of the program and our commitment to deliver the simplified products and services for our customers, and we're also very confident we will hit our target of no more than 20 core connectivity plans by the end of this financial year.

Secondly, the 24x7 App. Ironically one of the side-effects of our successful Peace of Mind data plans is customers are now going to their app with us less to check their data consumption because they no longer need to worry about this. This is great news for our customers and we're therefore working on other initiatives to increase our customer engagement with the app.

On Enterprise product closures, we're on track for our cease sale of the legacy products, however we have decided to provide another 12 months for our customers to migrate to these new products. This is due to the complexity of these contracts and services and the impact it may have on our customers. As I mentioned earlier, we're also very much on track in relation to our productivity targets, with nearly $900 million delivered since the program began in 2016. We expect 2019 financial year total operating expenses, excluding restructuring costs, to be broadly flat compared to 2018.

Total operating costs in the half did increase 3% on the same period last financial year, excluding restructuring costs and guidance adjustments. However, this is expected due to sales costs and the rate of increase has reduced overall. We're therefore confident total costs will be broadly flat by the end of the year, notwithstanding the upward pressure from nbn CVC and AVC costs.

Let me summarise before handing over to Robyn. Our results in the first half of the financial year showed continued growth in customer numbers across both mobile and fixed and good progress on our T22 strategy. However, as expected, our financial results reflected the impacts of the nbn rollout and increased competition. Whilst these factors will continue to have an impact in the year ahead, we are now more than halfway through the negative recurring impact from the nbn. Our T22 strategy is already helping us achieve the acceleration we need to take advantage of the opportunities ahead and delivers the platforms and systems that will help us transform the way we do business in the future. Telstra also stands amongst global leaders as we prepare for the introduction of 5G later this year. While we have short term challenges, we're facing into them. Importantly, we see great opportunities for the future, particularly as we enter 2020 and the 5G era, and for which we are now extremely well equipped.

Before handing over to Robyn and transferring to Q&A, can I just say a last word and thank all of our staff and management teams and the Board for the incredible hard work and support in delivering these results. Thank you and I'll now hand over to Robyn.

ROBYN DENHOLM:
Thanks, Andy. I'm pleased to present Telstra's results for the first half of fiscal 2019. This morning I'll provide some insights into how the business is performing and where we are starting to see some of the financial progress we're making as a result of our T22 strategy. We've made some changes in the disclosures for this earnings presentation to ensure that we're increasing the transparency of results and the underlying trends. There are also two accounting standard changes that we've implemented as of the beginning of FY19 – AASB 9 and 15. A further standard, AASB 16, will be implemented in fiscal year 2020 and today we're giving you advanced directional visibility of the impacts.

Turning to our results for the first half of '19. As expected, and in line with our outlook, reported earnings are down year over year. Our continued focus on the T22 strategy is enabling us to compete strongly whilst setting us up for future success.

However, these results clearly show the significant impact of the nbn and the competitive environment. Reported income was down 4% with EBITDA, EBIT and NPAT down 16%, 26% and 27% respectively. On a guidance basis, the declines in income and EBITDA were largely consistent with reported results. The largest reason for the decline in our earnings is the nbn, including both one-off and ongoing impacts.

However, in first half of '19 the business, excluding nbn, impacts also declined. Our underlying income for the period was down 1.8%. Underlying EBITDA, which excludes the impact of one-offs and guidance adjustments, declined 11%.

During the half we absorbed a further negative recurring EBITDA impact of approximately $300 million, from customers migrating to the nbn, as we incur growing nbn payments and lose wholesale revenue. In our underlying business, fixed Data & IP and NAS income also declined. We have built good momentum on reducing fixed costs in order to offset these headwinds and we enter the second half with line of sight to our full year cost reduction targets. We are increasing our cost out to have a bigger impact on total costs in the second half.

Below the EBITDA line, depreciation and amortisation reduced 3.5%, partly due to our ongoing review of useful lives of our assets. We will continue to monitor changes in the useful lives of our assets that occur as a natural consequence of our T22 strategy which may result in the acceleration of depreciation and amortisation or asset impairments. Finance costs increased modestly as a result of increased borrowings in the period, while tax declined on lower net profit. As we execute our T22 strategy, there are four things that we are especially focused on: supporting the trajectory of our mobile business (especially postpaid handheld), achieving our cost reduction ambitions, improving our NAS margins, and supporting the right level of free cashflow.

Turning to free cash flow. Our first half '19 free cash flow was $739 million on a guidance basis. This is around one fifth of our FY19 guidance and consistent with the trends that we outlined to the market in December of 2018. The decline versus the prior corresponding period was principally due to the lower EBITDA, including restructuring costs, and increased working capital due to the higher inventory levels. This was partly offset by lower tax paid and cash capex. Capex remains within the FY19 guidance envelope. The first half '19 capex was elevated as a result of the strategic initiatives, mobile capacity requirements, and 5G network preparations. Capex in the second half will be lower. We continue to expect capex to reduce in FY20 following the completion of our three-year strategic investment program. The working capital increases we saw in the first half are largely timing related and is implied by our guidance, we expect much of this to reverse in the second half.

Moving to dividends. The board has resolved to pay an interim dividend for first half of '19 of eight cents per share fully franked. Consistent with our capital management framework, this includes an ordinary dividend of five cents per share and a special dividend of three cents per share. The ordinary dividend represents an 84% payout ratio on underlying earnings. We continue to expect to pay dividends consistent with our capital management framework.

Turning to income by product. Our reported income declined 4.1%. More than half of this was due to lower one-off nbn DA and connection revenue in line with lower nbn connections in the period. Underlying income for the period declined $241 million or 1.8% year over year. This was in line with our expectations. In May of 2018, we forecast a net mobile and fixed market decline of 2-3% for FY19. We now expect the market to decline at the upper end of this range.

Looking at major products. In a competitive mobile market we continue to pursue our multi-brand strategy and network differentiation to retain our price premium. Mobile revenue grew in the period. This was primarily associated with hardware which saw an increase of $135 million year over year. Revenue from mobile services was broadly flat.

We were pleased to see the continued positive momentum in IoT with revenue up 36%. Postpaid handheld revenue increased 2.1% in the first half. We added 239,000 net new SIOs and saw stable customer minimum monthly commitment ARPU in mass market. This was offset by a decline of $120 million in out-of-bundle revenue. This is out of the expected $500 million that we announced as part of our T22 strategy. Due to the flow of first half pricing dynamics in the market, and the decline of out-of-bundle revenue, we expect ARPU reductions to increase in the second half. Our wholesale business also achieved net adds of 125,000 mobile services. Consistent with industry dynamics, the performance of mobile broadband and prepaid handheld continued to be challenged.

Revenue from fixed line services declined in line with expectations. We saw a strong performance in retail broadband with net adds of 64,000 services and reduced churn. This was the result of our multi-brand strategy, enhanced differentiated experience for our customers, and base management. We have also refreshed our fixed business disclosure in the supporting materials to improve transparency as we migrate to the nbn.

Looking at other areas of the business. Data & IP revenue was down 6%. In IPVPN we saw a strong 11% SIO growth with fibre and nbn access growth offsetting expected declines in legacy copper services. However, SIO growth was outweighed by continued pressure on yield through price competition, driving a reduction in revenue. The decline in ISDN revenue accelerated in the half to 16%, reflecting service rationalisation of legacy products ahead of regulated migrations to the nbn.

Reported NAS revenue also declined due to an expected reduction in nbn commercial works as part of the maturity of the nbn rollout. However, Enterprise and Small Business NAS revenue combined grew 4%. We're also pleased by the performance of new business with Telstra Health revenue up almost 50%, and this more than offset a decline from the sale of Ooyala.

Turning to expenses. We are delivering against our $2.5 billion net productivity target and we are on track for our full year targets. The rate of growth in our total operational expenses slowed. We expect total costs for FY19, excluding restructuring, to be broadly flat versus our FY18 total costs. Total first half '19 costs rose 3% due to $194 million of increased nbn payments, including growth in CVCs and AVCs, and mobile hardware costs. This was partially offset by our productivity program which enabled us to reduce underlying fixed costs by $162 million in the period. We expect the level of fixed cost reductions to accelerate in the second half and further again in FY20.

As expected, we saw higher restructuring costs up $194 million in the prior corresponding period as we began to reshape our workforce. FTEs reduced by 3,200 and we expect the reduction in labour costs to fully show in the second half of FY19. We remain focused on managing the whole of our cost base including: sales costs, where we are focused on growth margins and efficiency, labour and non-labour fixed costs, and depreciation and amortisation, including capex and asset life reviews.

In FY18 our total operational expenses cost base was $18.6 billion approximately $9.5 billion of this was fixed in nature, with over half being direct labour. We are targeting direct labour costs, excluding restructuring, to reduce by approximately $1.5 billion by FY22. Labour to sales ratio declines one third consistent with our T22 commitment and we reduce FTEs by 8,000. We are also continuing to target non-direct labour. This includes some of our indirect workforce. Our industry partners who provide technology, consultancy and other services have a workforce of approximately 40,000 supporting Telstra. As we simplify our business and optimise costs, we expect the total number of people our partners employ to work on our business to decline. The indirect workforce is also expected to decline as a proportion of our overall workforce. We are also reducing other fixed costs and have initiatives underway to rationalise our real estate footprint, improve our logistics and transport, and digitise many of our support areas.

Moving to EBITDA for our major products. The mobile EBITDA decline can be explained almost entirely by mobile hardware margins, including a circa $80 million decline in lease margin. This includes a reversal of timing benefits previously received. As mentioned, we expect our postpaid ARPU in the second half to decline faster than in the first half. By the end of the financial year we also expect approximately $300 million out of the total $500 million decline in out of bundle revenue to have been worked through. Our continued focus on bringing differentiated offers to market and on reducing costs will benefit our mobile business.

Fixed EBITDA declined by $358 million. The two major factors in this were the $289 million revenue decline in mostly high margin legacy products, and growing network payments to nbn which increased by $194 million versus the previous year. These negative factors were partially offset by significant productivity improvements. Including one-off costs of nbn migration, our retail fixed EBITDA margin was 21%. Under the current nbn wholesale pricing and industry dynamics we expect margins to trend towards zero as migration to the nbn completes. We continue to look to offset this by reducing our cost to serve and differentiating our offerings to support our price premium.

Looking at Data & IP and NAS. We remain committed to mid-teens NAS EBITDA margin at maturity. However, after a strong second half in FY18, our NAS EBITDA margin was challenged during the first half. EBITDA margins overall declined 4.5 percentage points due to a change of revenue mix, including a decline in nbn commercial works, and the timing of the recognition of costs on some of our large contracts. We expect NAS margins to improve in the second half. For Data & IP, revenue remains under pressure which caused EBITDA to decline. However margins did improve thanks to progress in reducing costs. Our aspiration remains for NAS EBITDA growth to offset the anticipated decline in Data & IP. In Global Connectivity, EBITDA improved by $20 million as we focus on more profitable products and improved productivity. During the period we also entered into in agreements to invest in new international subsea cable systems.

Looking at our capital position. Gross and net debt increased during the half, reflecting typical seasonality and lower free cash flow. Our average debt maturity is reduced slightly to 3.7 years. On the 2 January 2019 we borrowed $300 million on a seven year term at attractive rates. Together with an expected reduction in short term debt in the second half, we anticipate our average debt maturity to lengthen. We expect debt levels and associated debt servicing to reduce in the second half due to a higher free cash flow forecast. Our return on invested capital was 9.7%. Underlying ROIC which removes nbn one-offs from our earnings was 7.9%. We have a T22 commitment to deliver a post-nbn ROIC of greater than 10% and underlying ROIC growth from FY19. We will provide further colour on underlying ROIC at our full year 2019 results.

Looking forward to FY20 and the implementation of the AASB16 leasing standard. The standard will see operational lease costs move onto the balance sheet and below EBITDA in the P&L. We have provided early visibility of the illustrative impacts on a slide in the supporting documents. Although not an economic change, and with no impact on cash flow or our overall credit rating, at this stage we expect the implementation of the new accounting standard to increase our net debt by approximately $3.3 billion, increase our EBITDA by approximately $900 million and reduce our NPAT by approximately $100 million.

We reaffirm our FY19 guidance. In FY19, we expect: total income of $26.2 billion to $28.1 billion, EBITDA (excluding restructuring) of $8.7 billion to $9.4 billion, Net one-off nbn DA receipts less nbn cost to connect of $1.5 billion to $1.7 billion. And restructuring costs of around $600 million, Capex of $3.9 billion to $4.4 billion, and free cash flow of $3.1 billion to $3.6 billion. Free cash flow is expected to be at the lower end of the guidance range for two main reasons: cash capex will increase as we take advantage of opportunities in the Enterprise and wholesale fibre markets, and cash redundancies will be higher as we accelerate our productivity. The bases on which we provide guidance is detailed in the slide footnote.

I would like to take this opportunity to thank our incredible, dedicated employees across the company. Despite going through a period of enormous change, our employees have improved our network performance, delivered new products and services to our customers, and led the world in the deployment of 5G while also improving our productivity. Thank you. And I will now hand it back to Ross to moderate the Q&A.

ROSS MOFFAT:
Thanks, Robyn and thanks, Andy, for your presentations. We'll now move to questions from the line. Do we have any questions? I think the first question might be from Eric Choi at UBS.

ERIC CHOI:
Hi, guys. Just had a couple of questions if that's OK. Just wanted to drill into that mobile ARPU outlook for second half '19 a little bit more. I think if you look at the first half result and if you exclude that $120 million bundle it will look like ARPUs were probably up $1.15, so I guess do we think we can get an underlying ARPU increase again in second half '19, or would that be more flat or continuing even into negative?
And the second question, just on the Enterprise part of mobiles, that was probably declining in FY18 and it just quite a big swing to positive growth in this half. Just wondering what's behind that. Thanks.

ANDREW PENN:
Thanks, Eric. I'll make a couple of comments then maybe ask Robyn to contribute as well. I think overall we were pretty pleased with the mobile performance. There is no doubt that the increase in competitiveness in the market is putting pressure across the board. We are seeing that in handset subsidies. We are seeing it in below the line credits. We are seeing it in the outer bundle that you talked about. We have continued to see the MMC increase albeit it is fair to say the rate of increase is slowing and we expect that to probably flatten out in the second half as the flow through of those competitive trends come through. And that's why, as Robyn said, we expect ARPU to be lower in the second half than in the first half. So I think that's what I'd say on ARPUs and I'll ask Robyn to comment as well. On Enterprise I think you're right. We had a pretty strong half on Enterprise. Enterprise business is not so much lumpy, but the cycle is a little bit longer. So I think it's pretty solid. Having said that there's definitely a lot of competition and the same dynamics that are

playing out in Consumer are definitely playing out in Enterprise as well. But yes, a strong performance in this half. Robyn.

ROBYN DENHOLM:
Yeah, the only thing I would add is obviously we're pleased with our performance in the first half in our mobile business. The team has done an awesome job of continuing to add SIOs both in our Belong brand but also in our main brand, and the wholesale business also did well in the first half. To Andy's point, I do think the MMC has been growing but we expect that rate of growth to decline in the second half and the ARPU overall with the out-of-bundle will start to decline in the second half.

ERIC CHOI:
Thank you.

ROSS MOFFAT:
Our next question is from Kane Hannan from Goldman Sachs.

KANE HANNAN:
Good morning, guys. Just three from me, please. Firstly on that '19 underlying EBITDA guidance, if we annualise your first half, your $3,924 million, that is getting above the top end of that core guidance range and you should benefit from seasonality in the mobile and NAS businesses in the second half. Can you just comment on where you see the major EBIT drags in the second half to get your business back in that guidance range? Secondly, on the ROIC comments I think Robyn made, your commitment to delivering an underlying ROIC growth from FY19. Should I be reading that as trough earnings in FY19 if you're going to be improving the ROIC from there? And then finally, just on the D&A piece, you've obviously been through a period of elevated Capex but your D&A is down 4% in the half. Can you comment on what the drivers of this are and how we should be thinking about the D&A trending into the full year and beyond?

ANDREW PENN:
Hi, Kane. Andy. Again, just a couple of comments from me and Robyn will add to it as well. By far the biggest drag on our EBITDA is the rollout of the NBN. As we've previously communicated, we estimate that to be at least $3 billion on an annualised basis. I think according to my estimates there were probably about another 15% of homes in the first half that were connected, and if you look at the NBN rollout schedule, it's probably a similar number, maybe a bit up in the second half. 15% of $3 billion is $450 million obviously, so that's the magnitude. So that is by far and overwhelmingly the biggest drag. And then we've still got the competitive pressures coming through. We expect to accelerate productivity in the second half because the 3,200 roles that left the organisation in the first half, left them towards the end of the first half, and so the full benefit of that, economically, will flow through more in the second half full.

On ROIC, I'm not forecasting, if you like, troughs or otherwise. I think the dynamics are obviously the NBN rollout will continue to be a headwind for us until it's obviously fully rolled out. We're 55% rolled out at the moment. But we're fighting against that obviously with our other initiatives and productivity in particular, which we're accelerating. On the other aspect is that as we said before, the industry ARPUs, we expected them to be 2 to 3% decline this year. I think it's, as Robyn said, a bit more than that we're seeing at the moment and to some extent we're really sort of slightly dependent on when that starts to turn around. As I've said, I've got some optimism as we enter into 5G into the future as in previous periods that will be the case. But that's going to be a big determinant as well. I'll pass over to Robyn because she can also comment on the D&A review and asset lives and long-term D&A.

ROBYN DENHOLM:
Yes, so the D&A in the first half was down and that was mainly the result of an ongoing review of our asset lives. And we will continue to do that. Obviously T22 has pervasive impacts across the entire company in terms of delivering productivity benefits, but also what it's doing is looking at our assets and how long a useful life we have for those assets in a post T22 era. So that was the result in the first half and we'll continue to keep you updated on that. We did actually foreshadow this amount when we were providing guidance for the full year results last year in terms of the first half of this year, reduction in D&A.

ANDREW PENN:
Thank you, Kane.

ROSS MOFFAT:
Our next question is going to be from Sameer Chopra from Bank of America Merrill Lynch.

SAMEER CHOPRA:
Hi, guys. Two questions. One on NAS margins. They came down to 2% and the guidance of mid-teens. Can you walk us through how you get from 2% to mid-teens? What are the mechanics to that? And the second one is congratulations on the headcount reduction. That's a good indicator on $2.5 billion productivity. Could you let me know if you think the $600 million restructuring expense will need to be repeated in future years or because you've made so much headway in year one you don't need to spend $600 million again in 2020, 2021.

ROBYN DENHOLM:
OK. I might start and then hand it over to Andy. In terms of NAS margins, there were two factors this half that were significant in terms of where we ended up from an EBITDA margin on NAS. The first was the timing of costs that we needed to recognise this half for ongoing business in our large contracts. And so that had an impact in the half. The other impact was actually the slowdown in the NBN commercial works area and that was anticipated as part of the maturity of the NBN cycle. I think as we move forward, the teams are doing a great job overall in terms of improving our data and IP margins by working on their productivity in terms of the cost structure there. But they're also working on good products and momentum in the NAS business itself. It is a very strategic business for us as we move forward in adding value services to our Enterprise customers.

In terms of restructuring, the team has actually done a very good job across the board in productivity, across all facets of the company. Not just the reduction in headcount. Obviously, that was significant at 3,200 in the first half, and Andy mentioned that we feel deeply for our employees as we go through this. But I will also say that we're making significant progress in the indirect labour that we spoke about in the prepared remarks but also in terms of other areas of cost like our non-services based costs, real estate, logistics and transport, those types of areas as well. In terms of the overall restructuring, even though we're accelerating the second half, we feel comfortable with the $600 million of guidance for the full year of FY19. We haven't commented on what we will need in terms of restructure in future periods and we'll do that at the full year earnings.

ROSS MOFFAT:
Thanks, Sameer. The next question will be from Andrew Levy from Macquarie.

ANDREW LEVY:
Thanks a lot. A few questions if I may. The first one was, could you remind us on the migration plans customers onto new plans and the plan rationalisation. Is this still expected to start taking place on an active basis from your end from June? And so when does the migration start and what impact do you expect on ARPUs from putting your legacy base onto the new plan? The second one is around Capex. I think there was a suggestion last year that some of this year's Capex spend might flow into FY20 which I guess would reduce this year's number and make next year's above the medium term of 14% if that's where it was going. So can you just give an update now that we're further into the year and also your thoughts on whether or not you can get medium-term Capex to sales requirements down given the transformation of the network that is underway at the moment. And the last one is just on Foxtel. Foxtel's got a large bundle of debt and I think it has got to refinance this year so I'm just wondering if you expect to put any additional equity in or offer a shareholder guarantee over new debt given how that's been performing financially.

ANDREW PENN:
Thanks, Andrew. So just dealing with your questions in the order you gave them. So firstly, in relation to the migration plan. Essentially, as I mentioned, we're on track to deliver the 20 simplified product constructs and product simplification around that and we will expect to have those fully in market – I mean we have been delivering aspects of that design and that structure already with things like Peace of Mind and Choice and things like that are already in our customers' hands. So we're pretty confident we're in a good place to get that done by 30 June. And then in terms of migration, essentially the plan is what we will do is we will use what I call the natural momentum in the business to effectively enable us to migrate customers to those new products and to the new technology stack. And because obviously a lot of our contracts are two-year contracts, particularly on the mobile side, then as they come up for re contracting we offer those customers effectively the new proposition and that's what starts to drive them momentum into migration and then ultimately, we will clearly have some migrations that are not in the natural flow of the business and so will actually have to contact customers and effect that towards the back end of the migration program.

In terms of the impact on ARPU, I think as Robyn indicated in her commentary, we expect to absorb $300 out of the $500 million out of bundle revenues by the end of this financial year and I think, to be candid, I think the impact on ARPU for me, and going forward into these new products, is less about the new products because if we get the model right and we get the value services and the process for the sale of those right then that should actually help overall. I think the thing I'm more cautious about is actually the competitive trends in the market because it has been pretty intense in terms of downward pressure on ARPUs. But anyway, so that's on the first point.

On the Capex, as you say, we've essentially had this three-year program which has led to the elevated level of Capex where we've... And sorry, to answer the tail part of that question first, yes, we do expect to be able to maintain the medium-range Capex at 14%. As we said before, as we get to the end of the roll out of the NBN and post the NBN, even less than that. But yes, we absolutely expect to do that over the medium term. Our strategic investment program was really over the three years ending FY19 and so we have that elevated level of Capex and you're right, last year we sort of said well you know, in the last quarter the may be a bit that flows into next year vis-a-vis this year.

I mean, it's too early for me to be too precise about that, to be honest. But having said that, I think, as I said in my notes, we will be largely complete this financial year. So we're in a good place. If it is a bit that flops into next year won't be very much. On the Foxtel refinance I think that's not really something I could comment on. I think that's a question you should direct at Foxtel.

ROSS MOFFAT:
Thanks, Andrew. Next question is from Eric Pan at JP Morgan.

ERIC PAN:
Good morning, guys. Thanks for taking my questions. I have three. The first one the special dividend payouts seems lower than the capital management guidance – 75% over time. Why is there a shortfall there? And with one of NBN payments expected to be more significant in '20 and '21, if we follow your capital management guidance that would actually mean a step up in dividends next year. Is that the right way to think about it? And then, on the free cash flow, can you just give us some more colour on the weakness in the half? Where is the cash going to and why would the second half a step down? And then lastly, on mobile, very strong post-paid adds despite a very competitive environment. What's driving the strength for the Telstra brand and Belong and are you being more aggressive with promotion? What's working there?

ANDREW PENN:
Thanks, Eric. I might have a go at the dividend question and I'll cover the mobile one and then I'll hand over to Robyn and she can add her comments on both of those, and then also tackle the cash flow one. On the special dividend one. Our policy as I think you articulated is to pay out the NBN one-offs over time and so that's therefore not necessarily 75% in any one period and ultimately when we took everything into account and looked at…that was coming from underlying free cash flow, those sorts of things, balance sheet, ultimately, that's where the Board landed in relation to this period. In terms of going forward, the Board is not making any projections or commitments regarding dividend going forward. I think the one thing I would say to try and be helpful is that we are very committed to a capital management framework and our dividend policy and payout ratio so we're committed to pay 70-90% of underlying earnings and 75% of the one-off NBN payments over time. So those things haven't changed. So that is probably as much colour I can comment on the dividend.

On mobile, what drove it, so yes, Belong was definitely contributory. We had a strong period for Belong. We've nearly got nearly 200,000 mobile subs on Belong already having only launched it a very short time ago. However, Telstra branded net subs also increased. I think it was in the teens. It was somewhere between maybe 10% and 20%, I can't remember the exact number in the end. But it was also a very solid performance from our branded subs. I think it was a lot to do with some of the designs and changes that we've been bringing through as part of our pillar one initiative on our T22 strategy. So Peace of Mind as I say, we've got nearly half a million customers enjoying the benefits of that now, the Choice that is coming through now as well. The market has no doubt been very competitive and there's been a lot of pressure on pricing, industry ARPUs are under a lot of pressure.But it continues to be our strategy that market share and continuing to acquire and retain customers is really important. And again I point to mobile. Our churn again was very strong as it was, indeed, in fixed. So that would be the main thing. I would say it's really due to the initiatives we're bringing forward in relation to our T22 strategy and the success of Belong and we got growth over both Belong and also our branded subs as well. So I might pause there and handover to see if Robyn has anything on the dividend and mobile and then maybe comment on cashflow.

ROBYN DENHOLM:
Nothing to add on those two, but on free cash flow, Eric, what was your specific question? I think you crackled while you are speaking.

ERIC PAN:
Yeah, just where the cash is going to this half and then why will we see such a strong rebound in the second half?

ROBYN DENHOLM:
As we said in the prepared remarks, there is a normal seasonality to our free cash flow. The first half was muted, if you like, because of the Capex that we spent in the first half. We did pull forward some Capex, especially with the combined effect of the strategic program plus our capacity as we've launched Peace of Mind and other compelling offers into the market. And then also with our 5G preparations in the first half. So Capex was elevated in the first half as a proportion of what we normally spend in the first half. And so we expect Capex to be lower in the second half and that will have an impact as well as the normal seasonality on underlying cash flow from operations. And we're very focused on a free cash flow as I mentioned at the outset of my remarks today. It's an important driver for us as we move forward. Obviously, we're continuing to work through the impacts from the NBN but our view is that free cash flow is strong in the underlying business.

ERIC PAN:
Maybe if I can just follow-up on the dividend. Does that mean if you're looking at an underlying free cash flow on the balance sheet in order to determine the dividend payout, is that mean it can fluctuate?

ANDREW PENN:
As I say, I'm not in a position to make any more comments Eric, on the dividend going forward.

ROSS MOFFAT:

Thank you, Eric.

ERIC PAN:
Thank you.

ROSS MOFFAT:
Our next question is from Entcho Raykovski from Credit Suisse.

ENTCHO RAYKOVSKI:
Hi Andy, hi Robyn. A couple from me. The first one is around ROIC and the ROIC target that you've listed. Obviously, you've maintained that notwithstanding that it's a bit lower on an underlying basis. Just interested if you think that target is realistic if there is no change to the NBN pricing and obviously if NBN pricing remains unchanged, is there any offset for example in fixed wireless? The second question, also on NBN, have you seen any negative impact for the half on the fixed cost base from the end of NBN's focus on 50 promotion or are you seeing some offset perhaps from the new wholesale bundle they've put in place?

ANDREW PENN:
What was – sorry, Entcho – have we seen any - I heard the second part of it, which was the new wholesale bundle. What was the first part?

ENTCHO RAYKOVSKI:
Whether you've seen any negative impact on the fixed-cost based from the end of the Focus on 50 promotion, from the NBN.

ANDREW PENN:
Oh, OK. No, well, look, I think, look, on ROIC. I mean, there's two elements to our ROIC aspirations and targets. I mean, the first is that our aim is to get the company to a ROIC – underlying ROIC - of 10% post the roll-out of the NBN. And, you know, we've got a lot of work to do that. We've got, we've got to see mobile performance, continue to improve. I mean, we're really happy with where we're going on subs numbers. We're happy with where our premium is at in the market. We're delighted about where we are on 5G. We think we're extraordinarily well-positioned. The biggest challenge we have at the moment is a lot of downward pressure from the market competitive perspective on pricing. So, we're a lot – I mean, for our customer, it's great because there's a lot more value going into the product from the customer's perspective. But we think that, probably, that needs to be – we need to see some of the benefit of that as well. And so, we'll see that play out in the next couple of years. On the fixed side, you know, as you've heard me say previously, I mean, margins look as though they're going to zero, given where current wholesale pricing is. But I'm not sort of linking our ROIC target, which is a broader company target, necessarily with that. But I do think that, one way or another, we need to – that's not sustainable in the long term – an industry which is not making any money at all, for fixed broadband customers, is not a good thing. And so, overall, that dynamic has to change structurally. And I believe in the long term it will do. Because, ultimately, what we don't, ideally, what we don't want to see is increased prices for customers. But that's inevitably what will happen if the input costs basically, broadly, stay where they are. But, one way or another, I think that's something we'll need to work on as an industry together over the next two to three years.

The other aspect of the ROIC target is we were looking to see a target ROIC starting to improve from FY19. Sort of, from next year, broadly speaking. And, you know, that's sort of, that's what we're aiming for. It's largely, as I said, it's partly dependent on what the market dynamics are as well. But those are the sort of inputting factors. I think, on the NBN, I wouldn't comment. I don't think there's been a huge impact from, on our fixed costs from the bundles and the things that you're talking about. I mean, obviously, there may have been a more, a level slightly below my radar, but it's not something that seems to be a big issue from my perspective.

ROBYN DENHOLM:
Yeah. And, obviously, just to add to that and underscore what Andy said in terms of underlying business, we're really focussed on driving those elements, both through our mobile business, our NAS business, our value-added services business, across the board. And, obviously, taking a firm view on our productivity targets as well. And the whole idea of that is to drive underlying profitability and, therefore, the ROIC targets that Andy mentioned. And we'll give more colour as to where we see ROIC going from FY19 at the full year results.

ROSS MOFFAT:
Thanks, Entcho.

ENTCHO RAYKOVSKI:
Thank you.

ROSS MOFFAT:
Our next question's from Fraser McLeish from MST.

FRASER MCLEISH:
Thanks. Andy, I was just wondering if you could comment on your latest thinking on, sort of, NBN bypass. Optus has obviously launched its, sort of, fixed home wireless products. What's your latest thinking on that? Thanks.

ANDREW PENN:
Thanks, Fraser. Look, my perspective on this hasn't really changed that much. I mean, I think, a couple of thoughts. I mean, firstly, you know, I often get asked the question, "Is 5G going to replace the NBN?" And, clearly, the answer is absolutely not. As an industry, and as a country, we need our fixed networks and our mobile networks to both be successful and optimise both the growth of traffic, the important criticality of infrastructure, means that we need all of these. And transmitting data over radio waves is very different than transmitting it over a physical connection such as fibre or HFC. And 5G will have ten times more capacity than 4G, but currently that's not going to be enough to basically shift all the traffic from a fixed network onto a mobile network.

Having said that, there's no doubt that, I think, you know, customers are increasingly enjoying the benefits of mobile connectivity. We're seeing more customers choose to go mobile only, regardless of fixed wireless solutions. And I do think that, you know, we probably will see that increase under 5G. We already have opportunities. If our customers want to receive that experience from mobile, we see, we already have that.

And we'll have that with 5G as well. But, as I've previously said, I mean, how many customers will choose to go mobile only in a transition to 5G? I mean, I've sort of said, it's more in the, maybe in the 10-15% range. It's not in the 50% range. And so, we are, on our 5G roll-out, we're not ruling out fixed wireless. But, actually, what we're predominantly focussed on is providing a real 5G sort of solution for our customers with handsets and mobile devices.

And that's why I'm pretty excited that we've got all of the pieces in place with the network, with the arrangements with various different handset, some of the global leading handset providers that we will bring to Australia first, I think in this half of the calendar year. But, you know, fixed wireless is something that will suit some customers and we'll continue to have there as well.

ROSS MOFFAT:
Thanks, Fraser. Our next question's from Ian Martin at New Street.

IAN MARTIN:
Good morning. Thank you. Yes, look, I've got three questions. First, in the data and IP area, where, you know, there's obviously margin pressure, we've seen NBN start to come into the enterprise market. And it's widely reported that, you know, there's a number of deals with the in customers, where NBN will use their own fibre for – point to point fibre. And I've seen a comment that Telstra says you've got an obligation to use NBN for that connection for those enterprise customers. Can you just clarify what's – I mean, I'm pretty sure there's no compulsory migration for business and enterprise customers. But can you just clarify what Telstra's obligations are and how that affects the long-term margin trends in data and IP?

IAN MARTIN:
Then, a question for Robyn. You mentioned retail fixed margin's 21% and trending down. And, look, I may have misheard you, but did you suggest that they were trending towards zero? I may have misheard that. And third question. On the dividend policy, already talked about the special dividend, but I think the underlying dividend, and my view also, is being paid below policy. And it just seems to me, you know, your response to that suggests the board's actually making dividend decisions not on the basis of the dividend policy, but on the basis of these other balance sheet settings, cash flow and so on. Which are very important. But then, what's the point of having a dividend policy if that's not a good guide to where dividends are going to go?

ANDREW PENN:
Thanks. Thanks, Ian. It's Andy. I'll have a, I'll comment on a couple of them. And then, Robyn can talk particularly around fixed margins as well. Just on the last point, by the way. On the dividend policy, I'm pretty sure – and I'll get Robyn to confirm – that it's 84% of underlying earnings.

ROBYN DENHOLM:
Yeah. So…

ANDREW PENN:
So, I think it is in line with the policy.

ROBYN DENHOLM:
With the policy. That's right.

ANDREW PENN:
So, we can take you through the maths of that, but I think it's in line with policy on an underlying basis and also in line with policy on the PSAA payments, given that it's overtime. So, to hopefully put your mind at ease, we are absolutely working towards the policy. We just need to show you how that works.

On the data and IP comment. Yeah, no, I'm not aware of where that comment came from. And it's not, we don't, it's not compulsory for us to migrate those customers over to NBN. What we are seeing is, certainly for enterprise customers, if you've got a large enterprise customer, they've got, you know, a number of legacy services across their networks at the moment. What we are seeing is that, for some of those services, it's more beneficial for the customer – and for all of us, actually – that some of those services actually utilise the NBN service. Particularly the TC2 service. And so, for us, it's about optimising what's the best way of actually delivering that connectivity to that customer? And you saw us do that in a recent deal which has been communicated in the paper. I can't, I won't refer to it specifically, but that's, but there isn't any obligation. So, you're right in your understanding in that regard. But I'll maybe hand over to Robyn. You might want to talk about the comment on retail margins or if there's anything else on the dividends.

ROBYN DENHOLM:
Yeah, no. So, let me talk about the retail margins. You did hear me correctly, Ian. I did say that, as we migrate to the NBN, with the current wholesale pricing, the margins will – the EBITDA margins – will trend towards zero. And that is because of the wholesale pricing aspect. We're working like crazy to reduce our cost to connect and our cost to serve for NBN, and also improve the customer experience on that. That's one of the reasons why we put out the smart modem that Andy mentioned in his prepared remarks. But in terms of the overall business, that trajectory is we're delivering 21% at the moment, and we see pressure on that as we move forward, as the NBN rolls out.

IAN MARTIN:
Thanks. Thanks for that. Can I just follow up, then? Obviously, that retail situation, we've seen other RSPs face a great deal of pressure and some of them are even exiting the industry. And I just wonder, then, what you might see as the catalyst to resolving that NBN wholesale pricing issue? They don't seem to be able, to want to change their pricing construct and level at the moment?

ANDREW PENN:
Look, Ian. Andy. I mean, the point is, if I just look at our average bundle ARPUs on fixed at the moment, around $75. And we know that the, I think, according to the latest NBN plan – you're probably more across this, 'cause I know how well-informed you are on these things, than I am. But I think it's still around $51, $52 is their target ARPU. Now, ARPU's not the same as price. I do accept ARPU's not the same as price. But it's a pretty good, you know, it's a reasonable surrogate. And so, you know, that basically means that there's about 20 bucks, or a little over, to effectively, for any mobile operator – sorry, for any fixed operator, you know, to cover, obviously, the cost of sales, the cost of stores, the cost of service. Quite often,

modems, and those sorts of things as well, and putting in all the arrangements. And that's why, essentially, the margins are under that sort of intense pressure.

I mean, to me, either two things happen, really. As you say, I mean, there have been a number of operators that have left the market. I mean, I can probably think of about half a dozen off the top of my head. And there's also actually a number that have gone into liquidation, which is unfortunate. But, yes, there have been. And so, really, there's only one of two things that happens. Ultimately, prices will have to go up. And so, customers will have to pay more. And I think that's unfortunate, but that's the reality. But that will then increase the tension on mobile and, you know, customers might seek to go to mobile if they think that's a better and cheaper and more viable option, if prices become unaffordable on the fixed side. Or wholesale prices get adjusted downwards. So, you know, ultimately, that decision's not one I can, not one I make. It's for others. But I think that's the dynamic.

And I think, you know, overall, what's critically important is that we have a vibrant and successful industry across the board, across both fixed and mobile. And that means great service for customers, great experience for customers, a viable market for operator as well.

ROSS MOFFAT:
Thanks, Ian.

IAN MARTIN:
Thank you.

ROSS MOFFAT:
Our next question's from Brian Han at Morningstar.

BRIAN HAN:
Good morning. I have two questions. Firstly, is it possible for you to provide some colour on the ARPU differential between a Telstra mobile and a Belong post-paid subscriber? And I know both brands gain customers, but how much of your gains in Belong do you think was from the Telstra main brand?

ANDREW PENN:
Yep. And, sorry, did you have two questions, Brian?

BRIAN HAN:
Yeah, my second question, Andy, was can I please travel back in time and ask about the aborted plans to securitise those recurring NBN receipts? Now, if we have a change of government, is securitisation something that can be revisited with the NBN? Or have we forever moved on from that?

ANDREW PENN:
OK. I'll have a crack at those. On the ARPU differentiation, I don't think we do provide that.

ROBYN DENHOLM:
No, we don't.

ANDREW PENN:
I could, theoretically, but unfortunately, I'm not going to. Just because we keep some things reasonably, sort of, competitively sensitive. And what I can say is that, when we sort of do our business casing, obviously, around Belong, we obviously are aiming Belong at a very different market segment. So, it's not actually trying to target the same customers that Telstra's trying to target, which are looking for high-quality service, network differentiation. Belong's a very different value proposition. And we have a business case for what number – inevitably, obviously, some customers do switch from Telstra to Belong, but I can tell you that the number that do is far less than our incumbent market share.

And I think it's either in line or a bit below, sort of, what we planned for in our business case. So, we're pretty comfortable with that.

ROBYN DENHOLM:
Yeah, and I was just going to add the numbers.
So, for the half, 239 net adds – thousand. 239,000 net adds and 115,000 Belong. But, as Andy mentioned, the cannibalisation of the main brand is actually relatively small.

ANDREW PENN:
And then, the second question was securitisation of the NBN receipts. The reason we, ultimately, were unable to proceed with that is that we needed some consents from the NBN and from government. And we were unable to secure those consents, initially, from the NBN. And so, ultimately, it wasn't a matter that the government needed to address because we were unable to secure them from NBN. Whether they would change their minds, have a different point of view on that in the future, I don't know. So, I couldn't comment.

ROBYN DENHOLM:
Yeah. I mean, the other thing to note is, obviously, those pits and ducts and those ongoing revenues are now part of our [Telstra] InfraCo segment. So, you'll see those in there.

ANDREW PENN:
That's a fair point.

ROBYN DENHOLM:
We did actually report our segment reports for the first time this half. And so, you can see those ongoing good revenue streams in there for some valuable assets that we have in the pits and ducts.

BRIAN HAN:
Actually, that reminds me, Robyn, can I ask a follow-up question? Do you have any progress update on your plans to sell off some of those assets? I think you were to raise about $2 billion from such selling?

ROBYN DENHOLM:
Yeah. So, Andy mentioned in his prepared remarks that, obviously, we've sold off Ooyala and rationalised the Telstra ventures. And so, they're the things that we have done to date. We're making good progress on identifying and monetising the rest of

the $2 billion. But we'll give you and update as and when we actually achieve those monetisation plans.

ROSS MOFFAT:
Thank you, Brian. Our next question's from at Nick Harris at Morgans.

NICK HARRIS:
Thanks. Good morning, everyone. Just four questions from me. Just wanted to clarify, NBN, the cost impact versus the cost out, where we're actually at. I think you said you've absorbed $1.5-bill of the hit from the NBN and you're $900-mill cost out. Is that what you reported in the half or an exit rate?

ANDREW PENN:
Yeah, if you - Nick, maybe if you sort of go through your questions and we'll jot them down. And then, we'll knock them off.

NICK HARRIS:
Sure, Andy. No problem. Second question. Just trying to tie together your ROIC target, your EBITDA and DPS. If you put them all together – I know it's complicated – but just try and put that all together, it seems like you're probably targeting seven to 8-bill of the EBITDA. So, the dividend, if you can hit your target – obviously, there's many moving parts – but, you know, maybe 16's at the bottom. I just wanted to understand if, you know, if that's the way you're thinking, medium term. If everything goes to plan, can you hit that 7 to 8-bill target?

Third question, more for Robyn. Just the D&A. Obviously, it's been jumping around a bit. Just trying to understand, should we expect it, in the second half of 19, to be similar to the first half? And then, sort of, kick up from FY20 when you've got that strategic capex starting to be depreciated and T22 accelerated depreciation. And the fourth question is just the submarine cables. I think you're now probably the largest Asian submarine cable operator. Can you just tell us where you sit with that, and how much it's sort of contributing in terms of earnings and your medium-term aspirations and that business? 'Cause it could be quite material. Thanks.

ANDREW PENN:
Thanks very much, Nick. So, on the NBN cost impact. So, basically, in the half, the payments to NBN were around $600 million, I believe. And so, ultimately, if you sort of just do the math, you work through those payments, as I've previously said, get to around about 2.5 billion or so. And what we've said is our cost program, productivity program, is actually 2.5 billion. So, ultimately, we will look to fully offset those through those initiatives.

To date, we've delivered cumulative cost savings of around $900 million, compared to those NBN costs in the second half of, sorry, in the first half, of $600 million. I can't remember off the top of my head what they were in the second half of last year. So, we're probably – I'm just doing this off the top of my head – I mean, we're probably incurring on an annualised run rate, at the moment, $1.1-ish, or $1.2 billion of the NBN AVC DVCs. And we've delivered $900 million of productivity cumulatively to date. So, that tackles, I think, that point. But you were going to say something as well.

ROBYN DENHOLM:
No, no, no. I'm fine. You've covered it.

ANDREW PENN:
Yeah. So, basically, that's where we're at in terms of offsetting. Actually in the period, I think the incremental NBN AVC-DVCs were $194 million and our cost out was $162 million. So, we were about, sort of, $30 million short of what we wanted to do overall. But we believe we will pick that up in the second half of the year as our cost program accelerates. And so, that, sort of - so, I think we're, you know, we're in the ballpark definitely on that.

On the ROIC target and the various different points that you were mentioning, obviously, it's not appropriate for me to make any forecasts, any projections about the future or the dividend or otherwise. And so, any of my comments shouldn't be taken as being any of those things. But what we're just trying to do is trying to provide some helpful context. We believe that we would need about $7 to $8 billion of EBITDA, when we take into account our D&A and our balance sheet and free cashflow, to pay a dividend of around about 16 cents, sort of post the roll-out of the NBN. And so, that's, that was information we were providing. And, obviously, through our T22 program – and other initiatives, we've clearly, obviously, trying to, you know, improve our underlying performance.

And then, I might comment, I'll go to the submarine and I'll maybe then ask Robyn to comment as well, including on capex. I mean, on submarine cables, you're absolutely spot on, yep. We've got the largest submarine cable network throughout the Asia-Pacific region. We probably carry about one third of all internet traffic around the region.

So, people, for those that are perhaps not as familiar with this as those that are in the industry, think of this as almost like an airline. You take an international route to get from one country to the next. And then, when you get to the other country, you take a domestic aircraft to get within the country. That's a bit the same in telecommunications. We have cables which join country to country. And when the message or the communication gets to that country, it then goes on to a terrestrial network. We don't run the terrestrial networks. We partner with various different telco operators in each of the individual countries.

But in terms of driving the traffic around the region, and also from the west coast to the US, and also from Europe, and also from the Asia-Pacific region, our cables probably account for somewhere in the order of one third of all traffic, internet traffic, and traffic, data traffic, around the region through those submarine cables. And we've been continuing to invest in that, that business. The global connectivity business delivered about $155 million of EBITDA in the half. And, you know, like all industries, is an intensely competitive one. But we are continuing to invest in it and we expect to grow it in the future.

ROBYN DENHOLM:
Yeah. And just to set expectations, the things that we've entered into in this first half does take some time to actually come online and therefore generate revenue, and probably more likely the second half of 20 and into 21 in terms of delivering, you

know, incremental revenue and profitability from those new investments that we've made.

In terms of the D&A questions that you raised, Kane, I would not expect the second half impact, from reviewing the asset lives, to be as positive in the second half of FY19. These things, the review of asset lives, are ongoing. We continue to look at different assets, as I mentioned previously. But I would also comment on the strategic investment capex that we've been spending. Some of that we're already, as those assets get deployed into production, we are actually taking some of the depreciation and amortisation on that. So, it's also not fair to say that there would be a complete step up for that $3billion of capex in one period of time next year either. So, I think, again, it's an area that we're very focussed on. We understand the impact on our depreciation and amortisation on our total NPAT. So, we continue to monitor it. As Andy mentioned previously, our focus is also on making sure that we are in line with our medium-term guidance around capex itself.

ROSS MOFFAT:
Thank you, Nick.

NICK HARRIS:
Thank you.

ROSS MOFFAT:
Our next questions from Roger Samuel at CLSA.

ROGER SAMUEL:
Hi. Morning. Thanks for taking my questions. My questions are all on mobile. I appreciate that the competition is quite intense right now, but do you think it will stay this way given that TPG has decided not to roll out its own mobile network? And do you think that having one supplier puts you in a competitive advantage in terms of cost in rolling out 5G network, and even maintaining your 4G network? And the second part of my question is around post-paid ARPU and when do you think the mobile post-paid ARPU can increase? You mentioned about the potential from 5G, but the full commercial deployment of that is not until FY20. So, do we expect sometime after that? Thanks.

ANDREW PENN:
Thanks, Roger. Look, well, a couple of things. And, I mean, the two questions are sort of, obviously, interrelated. I mean, as regarding the competitive environment. I mean, if I sort of step back and sort of observe what tends to have happened in the telco sector over time and over cycles, as you get into the early stages of a new generation of mobile technology. ie, 4G or 3G or 5G, what tends to happen is that tends to be followed with some lift in industry revenues and ARPUs. And I think that's partly because customers see the great benefits from that new technology. And they're willing to invest a little more to get access to it.

And then, secondly, from an operator's perspective, we've invested enormous amounts of capital in spectrum and in radio access equipment, in provisioning that new technology. And I think, so therefore, you start to see that in the first half of that technology evolution. What you also, though, see is the converse of that, in the, sort of, the second half of the period if you like, is, you know, the operator's networks, people sort of tend to sort of be at similar stages in terms of their 4G roll-out. Albeit, we still have a big, superior network and faster network and better coverage. But nonetheless, you know, competitors tend to get to the same pace in terms of where they're at on 4G penetration in their networks. And the competition tends to intensify amongst the industry. And so, I'd observed that sort of happening in the last couple of generations of technology. And we're seeing that clearly in the 4G phase. And not just here in Australia, but globally. Which is why I sort of say that I think, with 5G coming around the corner, the opportunity for there to be a return to sort of growth in revenues across the mobile sector is definitely there. In terms of, you know, the one - I think you mentioned.

ROBYN DENHOLM:
One supplier.

ANDREW PENN:
One supplier. Was your comment there in relation to the fact that we only use one provider of radio access equipment is because…?

ROGER SAMUEL:
Yeah, that's right.

ANDREW PENN:
Yeah. Look, I think that, you know, there's different schools of thought on this. Our strategy and our perspective has always been that, you know, we've had a very, very successful partnership with Ericsson over many years. We work very closely in terms of network leadership and delivering some of the best network capabilities in the world to our customers. That partnership works for both of us. Australians are great early adopters of technology. They love new mobile technology. And Ericsson, it's very beneficial for Ericsson to work with us because we probably have one of the best, if not the best network in the world. And they get to bring their new technologies to that network and work with us, and it's great for our customers. And so, it's been a very strategic partnership. And that's not to cast any comment on the other RAN providers, who are all outstanding companies. But the strategy's worked for us.

And, in relation to 5G mobile, we've decided to – just in terms of the mobile aspect of the 5G network – you know, we've obviously recently re-signed with Ericsson. And, you know, we're very pleased with the progress we're making. As I said, we've got more than 200 sites up already and active, and we're very well-positioned. Which goes to part of your question as well, in terms of "When will 5G launch commercially?" 5G is launching commercially for us this year, this financial year. Not just this calendar year, this financial year. So, yes, 5G will continue to roll out during FY20 – sorry, during 2020. But we will have 5G handsets in the market, in the hands of customers, on some of the best, with some of the best handset manufacturers in the world - and I've seen some of the handsets and they're very, very high quality – in the coming months.

ROBYN DENHOLM:
And if I can just add to that because I think Roger's question on the supplier side was also focussed on cost. As you know, Nikos and the team have a very public cost target around cost per bit of traffic or terabit of traffic, or however you want to

characterise it. And clearly the RAN is part of that, but it's actually more extensive than that. Because the capex to do with the roll-out, in just the RAN, is a relatively small portion of the overall network cost. And what the team's driving towards is, you know, to actually have a cost per terabit of one fifth of the cost of what it was in FY16, so that we can continue to deliver the capacity and the services to our customers that support their ongoing needs.

ROSS MOFFAT:
Thanks, Roger. We've got another question coming back again from Andrew Levy at Macquarie.

ANDREW LEVY:
Thanks for the follow-up. Just listening to some of your comments then, I was just wondering if you could help give us some colour on how you differentiate pricing for 5G versus 4G for handsets? Does that mean there'll be separate sets of plans for people wanting to use the 5G network and your current customers won't automatically get access even if they bought the handsets out themselves? Thanks.

ANDREW PENN:
Thanks, Andrew. So, look, I'll preface the comment with saying we have not disclosed any information regarding our pricing for 5G yet, but there are a few things that you need to take into account. One is that – and you alluded to this – is that customers obviously will need to have a 5G-compatibale handset. So, a 4G handset will not work on 5G. So, customers will need to upgrade to a new handset. That's, you can't build a handset for a technology that hasn't yet been delivered. So, I know it's always frustrating when you have to upgrade, but to get the benefit of 5G, customers will have to update to 5G handsets. And we don't know what the pricing of those handsets is going to be yet. So, they will be, but I suspect they will be a slightly different price than 4G handsets because there's some aspects of the technology, including the antennas and the chip sets, which will affect the production costs of handsets for the big handset manufacturers.

So, that's one aspect of the pricing that needs to come into account. I think the second is that, you know, we see, over time, that there are interesting opportunities for us in terms of providing quality of service differential to customers. You know, things like gaming, where customers need, you know, particular aspects of the quality of service such as latency, where we can potentially provide a high-level grade of service. And we would, obviously, charge for that as well in those specific circumstances.

And then, I think, sort of overall, you know, I think it's not so much pricing for 5G. I think for call connectivity plans will be differentiated from 4G. We haven't made that decision yet, but, you know, in the last upgrade from 3G to 4G, the actual call connectivity plans didn't change, whether you were on a 3G or a 4G. Because, you know, often for customers, particularly in the early stages of roll-out, you'll buy a 5G device and you'll get the benefit of our 5G network, but where you don't – you know, 5G will not be 100% rolled out on the whole network from day one. And so, therefore, you basically, you'll drop down to 4G where the coverage isn't there. And so, that influences our thinking on pricing as well. So, I can't give you a firm answer because we haven't finalised that and we haven't communicated that yet. But they're some of the parameters that you need to take into account.

ROSS MOFFAT:
Thanks, Andrew. And our final question is from Kane Hannan at Goldman Sachs, also coming back for a second time.

KANE HANNAN:
Thanks for the follow-up, guys. Just wanted to confirm, that discussion around the retail margin falling down towards zero in the NBN world, is that encapsulated in the $3 billion nbn headwind that you guys have previously spoken to?

ANDREW PENN:
Ahh No. Not completely, Kane. Because when we did that analysis, we assumed that the – there's an aspect of it – but we assumed that, ultimately, there would be a residual margin in that business around about, you know, [in the single digit EBITDA however this is less than the mid-teens we would expect as a reseller][2]. So, the margin aspect that is in the $3 billion is that which we lose as a consequence of going, effectively, from providing that service off of our own infrastructure, where our input costs are the historic, you know, the capex and the capex that we provide. As opposed to buying that from a wholesaler. But we had anticipated that there would be some margin in reselling that business. At the moment, the trajectory and the trend is towards no margin, but, you know, we canvassed that discussion earlier. And I think, ultimately, that will have to change because it will be, obviously, unsustainable for an industry to continue not making any money.

KANE HANNAN:
Yep. Thanks very much.

ROSS MOFFAT:
Thanks, Kane.

ROSS MOFFAT:
That's going to conclude our investor section of the presentation today. We're gonna probably take a short break and then we'll continue with some media Q&A. Thank you.

RECORDING SUSPENDED [11:00am]

RECORDING RESUMED [11:07am]

NICOLE MCKECHNIE:
Good morning. And welcome to the media portion of today's half-year results presentation. I have Andy Penn here with me. We're going to take our first question from Jen Duke from the Sydney Morning Herald. Jen?

JEN DUKE:
Hi. Thanks for that. Thanks, Andy. So, I've got three questions if that's alright. The first one is what are you going to do if 5G is not the game-changer that you're

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[2] Verbatim: "mid-teens. Which is what we've sort of, historically, said as a reseller, that's the sort of margin that you would expect to achieve."

expecting it to be? Would that be a big blow to Telstra? Secondly, obviously, with the benefit of hindsight, do you regret not putting into place the T22 type strategy earlier? And, thirdly, there's been some pretty significant board-level and senior-level changes at Telstra in the past 12 months, do you guys have problems choosing and holding onto your top leaders? And why did Robyn initially say that, or why did you guys say that Robyn would be fine to continue on in her role as CFO when she's obviously not?

ANDREW PENN:
OK. Thanks, Jen.

JEN DUKE:
Thanks.

ANDREW PENN:
In terms of the first one, what are we going to do if 5G's not the game-changer we think it's going to be? I don't think that's a question, a hypothesis that I contemplate. 5G is going to be a game-changer. It's unequivocal. But what I would say, though, is notwithstanding that, our 4G network and our broader network is by far one of the world's leading. I mean, we've just won P3, Systemics, Ookla, and others as well. I can't remember which. When sort of ranked globally, it clearly is the best network. And one of the areas of our strategic investment is about developing that for the future, putting in, increasing the capacity and the core and preparing for 5G.

But look, 5G will be, it will be a game-changer. But not just a game-changer, it's also going to be the next, just the next wave of meeting the changing and increasing demands of customers today. If you just look at the statistics in terms of how many customers are watching video and content online, gaming. Just how the network is being used today. It's changed dramatically from the last, you know, over even the last, sort of, three or four years. And then, of course, if you think about how the network is being used into enterprise for functionality, such as the internet of things, which in another words is connecting things that aren't phones. But it's really becoming the backbone of all robotics and automation. If you think, just things simply like, autonomous driving is not going to happen without a telecommunications network, and 5G is the generation of telecommunications network that is going to bring that sort of thing to life. So, I just don't think it's a question.

On our T22 strategy, one of the important points to put in place is that we made a decision back in the middle of 2016 – so, almost three years ago now – to make $3 billion, up to $3 billion, of strategic investment to prepare for the future. And we are, I haven't worked out the exact percentage, but we're $2.6 billion into that and we'll be largely done by this financial year. And that is about building, as I said, the network of the future and digitising the business. T22 would simply not have been possible had we not made those investments. And so, I could have announced it earlier, but I don't know that it would have meant we'd be in a position to deliver it and execute it earlier. So, no, I don't agree on that.

And, in terms of, we've got some great talent. We just announced yesterday Eelco Blok joining the board. I've known Eelco for a number of years. He's a co-director on the global industry body of telecommunications. He's got incredible telecommunications experience. Obviously, we recently welcomed Niek van Damme down to the board as well. Again, very experienced executive from Deutsche Telekom. And then, about a year ago, Roy Chestnutt, who's also very, very experienced. Previously chief strategy officer and head of M&A for Verizon globally. So, I think, you know, at a board level over the last period of time, we've brought some incredibly global and experienced talent in the sector, which I think is extraordinarily beneficial.

And then, also, at the management level, you know, new appointments. Well, we've already got a very talented team of people like Brendon Riley and Carmel and the broader team. But, you know, Michael Ackland's running our consumer business. Christian von Reventlow, we have recruited from Deutsche Telekom in Germany on product and technology. Nikos Katinakis, who's really leading our network work. So, I'm very, very happy with the team. I'm very, very disappointed to lose Robyn, very disappointed. She's an extraordinary, talented executive. She's doing an incredible job and I have no problems with her in terms of the contribution she's making, as well as her involvement with Tesla. So…

NICOLE MCKECHNIE:
Thanks, Jen.

ANDREW PENN:
Thanks, Jen.

NICOLE MCKECHNIE:
Next question comes from Supratim Adhikari from The Australian. Supratim?

SUPRATIM ADHIKARI:
Hi, Andy. Thank you for your time. A couple of questions from me. Firstly, you know, the nbn issue and, I guess, the impact it's having on your overall margins. Does a $20 cut to the wholesale prices help you hold the line on dividends? Does it guarantee, give you some comfort with regards to how dividends, your dividends policy will be? Or are Telstra's dividends, I guess, on a downward trajectory irrespective of NBN's wholesale prices?

ANDREW PENN:
And, sorry, was there a second part to your question, Supratim?

SUPRATIM ADHIKARI:
The second question is just on 5G. You said you're opening to offering fixed wireless services. I mean, is that something you might have to, the timing of that, is that something you might have to reconsider if the adoption of 5G mobile phones are not as aggressive as you're expecting? There's some concerns, right. 5G phones will be expensive and they might only show marginal improvement to existing 4G handset.

ANDREW PENN:
OK. Look, thanks. Look, on the first point, my focus on the wholesale pricing has really been through the lens of the customer. Because, in the end, if you have an industry that ultimately is making a zero margin, then by definition that's not sustainable. And we are seeing that because we have seen a number of operators

choose to exit from the market and a couple, unfortunately, that have – at least two I know of – that have, unfortunately, gone into liquidation. And so, I think that's unsustainable. And so, the only way that that changes is, essentially, that the industry increases the prices to the customer, which I think, ultimately, you know, that's not a good thing for customers. Or, the input costs have to change. And the biggest thing with input cost is, obviously, the wholesale price. And so, that's really where I'm coming from. It's not really from the perspective of the dividend.

On the fixed wireless point, I don't think these things are mutually exclusive. I do think 5G will ultimately replace existing technology. I mean, what will happen is the same thing that happened with 4G, is that initially we'll see our 3G traffic start to ramp down considerably. Bear in mind 5G is about 100 times faster than 3G. So, let me put that in perspective. And so, that's why we'll start to see customers definitely go to 5G. And we'll start to see 3G decline. 4G, as I mentioned in my remarks, interestingly, will also benefit as well in the short term. Because, as the earlier adopters go to 5G tend to be big data users, that takes a bit of pressure out of the 4G network, improves capacity there. And you get a lift in 4G as well. So, it's a win-win for customers.

And, you know, I can't predict what the rate in adoption of handset take-up will be. But, I mean, I think we're having a debate around the edges. There's no doubt that 5G will be critically important for globally. It will take off as a technology. The exact rate and pace at which it takes off, I can't comment. There's no doubt the technology will improve over time. We're getting three gigs per second download speeds at the moment on our trials. We believe that 5G, ultimately, has got the capacity to deliver ten gigs per second download speeds. But that still requires a bit of innovation and evolution around the chipsets, around the radio access equipment. So, you know, and I think the fixed wireless thing, they're not – as I say – they're not mutually exclusive. So, I think, you know, fixed wireless will be there for customers that want it and the mobile devices will be there for the broader population. And, from Telstra, starting in the coming months.

SUPRATIM ADHIKARI:
OK. Can I just ask one more just on the dividend again? Do you think any prospective changes in the government in Canberra and any prospective changes to the fracking policy, would that have an impact on your dividend policy? Or does that remain as is?

ANDREW PENN:
Well, look, I mean, obviously, when the Board make a decision around dividend, they take all factors into account. At the moment, I can't foresee any changes in the foreseeable future that are going to impact the factors that they take into account. But, similarly, I can't predict whether there's going to be any substantial changes, but… So, no. I'm not sitting here expecting any changes.

SUPRATIM ADHIKARI:
Thank you.

NICOLE MCKECHNIE:
Thanks, Supratim. Next question from Jen Hewett from the AFR.

JEN HEWETT:
Oh, good morning. You've talked quite a bit about this not being sustainable over time, in terms of having margins drift down to zero. Can you put a timeframe on when you see that happening? And you said that, you know, ultimately, you'll have to raise charges. So, are you talking about within a year, within, you know, indefinitely? Or are you just relying on the fact that the, that a government will eventually write down the cost of NBN within some particular timeframe?

ANDREW PENN:
Well, Jen, the reason that they're trending down is actually probably slightly – let me be more precise. The margins today, on the NBN reselling business that we're selling today, is a zero margin. Because we're only 55% of the way through the roll-out, we still have the benefit of the margins from our existing business from Telstra, where there is a positive margin. And so, the net net of the two is the 21% that Robyn presented in her presentation. As the roll-out completes and the number of broadband services that we're providing increase and becomes, ultimately, 100% - or close to 100% - our margins, effectively, on that business line, will be zero. And, you know, the closer we get to that, I think, you know, customers, we will have to think about increasing prices for customers. And I've never, I'm not commenting on write-downs or government policy or otherwise. That's not for me to comment on. My simple point is really just around the wholesale price.

JEN HEWETT:
OK. And in the meantime, obviously, all this kind of cost out, the stories – I mean, I know your constant talk about customer service - but the stories about people waiting. You know, of just having incredibly frustrating times, waiting for Telstra online, are just too numerous to discount as occasional. Are you, is that part of the cost out that you're taking, and also your reluctance to send out people who are still on ADSL lines and things like that? Because of the cost? I mean, are you experiencing an increase in complaints about that?

ANDREW PENN:
Well, Jen, I mean, obviously, I'm desperately disappointed if we are ever letting any of our customers down. And I know that, absolutely, there will be customers out there where we're not delivering a level of service that we need to. Overall, our number of complaints has come down. I don't actually have those at my fingertips, but I think it's in the order of 20% over the last, sort of, three to six to 12 months. So, we are seeing some trends absolutely in the right direction. And we're being very thoughtful and careful about, where we're making the productivity improvements, that we're not taking roles out of those which would negatively impact customers. In fact, of the 3,200 roles that have so far left the company, almost half, or about half of those, are actually management roles not… And then, the others are sort of… So, we're targeting away from customer-facing roles, but look, I do accept we still have more to do in terms of improving experience for customers. I mean, what's, the other stats I would give you as well, that was interesting is that the number of calls into our call centre actually dropped more than 20% in the half year. Now, to put it in perspective, that's still 14 million calls that came in in the six months to December. So, it's still a lot of customers contacting us.

But we've been very much trying to target, why are customers calling? And if it's an issue that we ought to not have put them in a position of needing to call in the first place, is to address the root cause of that and eliminate the cause as well. So, we're doing everything we possibly can to pull those levers. And then, the investments we're making, hopefully, will take us further forward as well.

JEN HEWETT:
Thank you.

NICOLE MCKECHNIE:
Thanks, Jen. Next question from Corinne Reichert from ZDNet.

CORINNE REICHERT:
Hi, Andy and Robyn. I know you said 5G isn't going to replace the NBN, but are you expecting future 5G and also IoT revenues to help make up for the losses cause by the NBN? And, secondly, when will you have 5G pricing and will it be similar to Optus?

ANDREW PENN:
Thanks very much, Corinne. When I say, sorry, when I said that 5G won't replace the NBN, I meant by that that I'm often asked the question, will 5G ultimately lead to the NBN being effectively not required anymore? And my point is, no, that's absolutely not the case because we need all technologies. And just to put this in perspective for your readers and for listeners, the average customer who's today using a fixed broadband service at home, whether it's fibre to the home, fibre to the node, HFC, or indeed across all technologies, the average fixed broadband customer is downloading, on average, 250 gigabytes of data per month. So, 250. The average customer that's using a mobile device is downloading around about five, maybe five or six. So, there's a very big difference between the amount of data that is going across that fixed network than is actually going over the mobile network.

Now, of course, within those averages, there's always, you know, some customers who are using 50 gigs a month on mobile and some customers on fixed that are using only ten gigs. So, you know, you've got all of the variations within it. But, ultimately, there is not enough capacity on the mobile network and would not be without an incredible amount of investment to take all of the traffic off the fixed network onto the mobile network. That's why it will never replace it. So, that's really the point of my comment. Will it be an alternative solution for some customers? Absolutely. And will some customers choose to only go mobile? Absolutely. But my point has always only ever been that that's more likely to be in the, you know, 10-15% range maybe than it is in the 100% range. In terms of the revenues and the opportunities, we've spoken a little bit about those. I think there's a number of benefits from 5G. We will immediately get a capex benefit because it reduces the cost per gigabyte of traffic travelled on the network. We'll get a benefit on our 4G network because it will increase capacity as we offload from there. And, as I said, we've already got more than 200 sites up and still rolling. We will, you know, we think that in the early stages of 5G, we'll see revenues across the industry start to increase, for the reasons I mentioned before. So, ultimately, you know, it is going to be, I think, a great opportunity for the industry. I can't forecast how much and what it will mean, but I think there's a lot of upside there. And I – what was the second? Sorry, what was Corinne's second question?

NICOLE MCKECHNIE:

Corinne?

CORINNE REICHERT:
When will you have 5G pricing?

ANDREW PENN:
When will we have 5G pricing? Well, definitely when we put handsets in the hands of customers. And that's not very far away. So, we will have handsets in the hands of customers, subject to those international equipment manufacturers – by that, I mean the people who make mobile phones. We've got a number of agreements with some of the leading providers of mobile phones in their world, to provide those exclusively to Telstra's customers first in Australia, in the coming months. And so, we'll definitely have the pricing at that point.

CORINNE REICHERT:
And you can't speak to whether it will be similar to Optus'?

ANDREW PENN:
Uh, no, I can't. I can't. I think they've said something about a fixed wireless. So, I don't think, I haven't heard them talk about – I don't know anybody else who's actually going to offer devices and a proper mobile service, on 5G, to customers.

NICOLE MCKECHNIE:
Thanks, Corinne. OK, moving to James Fernyhough from the AFR.

JAMES FERNYHOUGH:
Hi, Andy. If there's no change to NBN's selling – re-selling - margins, and they remain at zero and mobile competition remains as fierce as it is now, where does that leave you in terms of handling the loss of earnings to the nbn?

ANDREW PENN:
Well, as I say, I think that, you know, if margins go to zero in fixed, which is where they're sort of heading, then ultimately the laws of economics are that that's unsustainable. And, ultimately, unfortunately, that will lead to higher prices for customers. I haven't seen too many industries that basically last over the longer term that don't make any profit. You know, ultimately, the laws of economics. And we have, unfortunately, seen that in the fixed sector. We have seen some people exit from providing fixed services and, in fact, a couple of companies go into liquidation.

JAMES FERNYHOUGH:
Can I just also, on a more macro level, can I ask you what you'd like to see prioritised by the next federal government? And also, what lessons have you personally taken out of the royal commission, the banking royal commission?

ANDREW PENN:
Ah, look, on the agenda for government, I won't comment on that. I think today's really about results, not for me to comment on the policy agenda. I mean, I think, on the royal commission, I think what I would say is that it continues to reinforce the message, I think, for all corporates to, you know, have in place the right culture and environment to make sure they're absolutely dedicated and focussed, providing the best possible experience and service for their customers. And putting the customer at

the heart of everything they do, which is very much about what we endeavour to do at Telstra and at the heart of our T22 program.

And one of the elements of our T22 program is to - in our pillar one, which we announced last June before the royal commission – is to remove customer pain points. You know, things like excess data charges, all of those sorts of things which, you know, build up in industries over time, which I think, you know, is beholden upon us to be proactive really addressing and improving for our customers. I'm delighted we've already got half a million of our customers on Peace of Mind data.

NICOLE MCKECHNIE:
Thanks, James. OK, next up, Tom Westbrook from Reuters. Tom?

TOM WESTBROOK:
Yeah, good morning, Andy. Thanks for your time. How much further do profits and dividends have to fall?

ANDREW PENN:
Sorry? I mean, I'm not sure I – it sounded like there should have been an end to the question, Tom.

TOM WESTBROOK:
Well, you know, they're going down owing to the NBN. You know, Mr Mullen's said he expects profits to half on compared to pre-NBN sort of basis. When do we hit the bottom here, and how far do they drag the dividend down with them?

ANDREW PENN:
Look, I think, what I could say – I mean, firstly, I should say very clearly, I'm not in a position to make any forecast and projections about profits, etcetera, beyond the guidelines that we've provided for this year, as you would appreciate. But what I would say is we're 55% of the way through the roll-out of the NBN. So, 55% of premises in Australia are now connected. I think the NBN corporate plan basically has the roll-out finished around about the end of 2021, I think. It's about that anyway. So, ultimately, we will continue to face into that headwind impact over the next, certainly over the next couple of calendar years.

Actually, I might be, sorry I might be wrong. Maybe FY20. Sorry, I'm getting my years mixed up. So, anyway, the point is we got another couple of years of headwind to face into. Of course, what our strategies are aimed at is on mitigating the impact of that through the productivity initiatives we're putting in place through the other things that we're doing to grow and improve the performance of our business. Now, the extent to which we can do all of that is obviously dependent partly on our execution. And I'm pleased that we've, so far, we're going pretty well. We delivered $900 million worth of cumulative cost savings to date. We've got a target of $2.5 billion. That's a target to get $1.5 billion by the middle of the next calendar year. So, we've definitely got all of the initiatives in place. I think the rest, which is sort of a little bit out of control, is just really what the market and economic dynamics and the regulatory environment is as well.

NICOLE MCKECHNIE:

Thanks very much, Tom. Final question from John Drury from The Australian. Hi, John.

JOHN DURIE:
Yeah. Hi, there. Hi, Andy. Andy, I'm just confused. Your NBN receipts, you know, the money you got under the compensation payment, it looks to me like it was $341 million went to the infrastructure company, but was that the total NBN receipts?

ANDREW PENN:
No, that wasn't the total NBN receipts. We get a few receipts. The main receipts that would be going to the infrastructure company is where we're doing some build for them.

JOHN DURIE:
Right.

ANDREW PENN:
So, as you probably recall, John, the receipts that we received from NBN are, there's some ongoing receipts, which we receive for, effectively, access to the infrastructure. And then, we also receive some one-off receipts because we're helping them. They've asked us to help them with some of the build. And the build is definitely being done by the [Telstra] InfraCo.

JOHN DURIE:
So, my questions is, what are the total NBN receipts last half?

ANDREW PENN:
I would need to come back to you and confirm because they're actually in a couple of different areas. I'm looking at Robyn. She may have the answer to the question. I need to come back. I'll dig it out for you, John. I haven't actually got it aggregated in front of me.

JOHN DRURY:
OK. Thank you. Another one, you or Robyn referred to health going up very strongly.

ANDREW PENN:
Yep, yep.

JOHN DURIE:
The health division. But I didn't see - my ignorance – but what are its revenues now?

ANDREW PENN:
I think the revenues for the half year are in the order of $100+ million annualised[3], from recollection. And the performance has improved quite strongly. We turned around. It's still not making a profit, but the trajectory is in the right direction. And, more importantly, we're seeing a number of important contractual wins. As you know, during the period, we've delivered the national cancer registry. We've done a

[3] verbatim, "I think the revenues for the half year are in the order of $100 million, from recollection"

major project with the Northern Beaches [Hospital]. We've won a contract to provide real time prescriptions for the Victorian state government. So, it's really starting to actually hit its straps.

JOHN DURIE:
Yeah. So, you think that business is really going to deliver long term?

ANDREW PENN:
I think it's a good business, John. And I think that we started that journey, well, before my time actually, when the company bought a number of, did about 18 acquisitions across disparate parts of the health sector. And I think what the current team, Mary Foley and the current team have been able to do, is actually bring that together into cohesive strategy, make some investment, build some really interesting products and starting to really deliver some differentiating capabilities into the health sector, which is much needed. Because it's all about, it's about sort of communications. It's about automation. And it's going very well.

JOHN DURIE:
Great. Sorry, one final question. As I read it, your mobile revenues are about $5.3 billion. Your fixed revenues are $2.7 billion. The margin you get on the mobile is 36%. So, it's not bad, is it? I mean, as an integrated producer, you'd have to say you're in front on that.

ANDREW PENN:
Well, yeah. It's about 36%, I think you're right, is the margin. You also have to look at free - sorry, the amount of capex we invest as well. So, if you think about a mobile business, your costs, if you like, are split between your operating expenses and your capex. And so, we've been investing 18% capex to sales for the last three years. So, if you get a 36% operating margin, you're going to take off 18%, which then comes down to your net margin. So, I mean, yes, our margins are definitely comparable internationally. But they're coming down. They've sort of come down from about 40% over the last, sort of, 12 months or so, which is an indication of the competitive pressure in the market. And, of course, at the same time, capex has been going up as capacity and preparing for 5G.

JOHN DURIE:
Great. Thank you.

ANDREW PENN:
Yep.

NICOLE MCKECHNIE:
OK. Thanks, John. We will wrap it there. Thanks, everyone for tuning in. And thanks very much, Andy. Cheers.

ANDREW PENN:
Thank you.

BRIEFING CONCLUDED **[11:35am]**