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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2008 Financial Results – Analyst Briefing

In accordance with the listing rules, I attach a copy of the transcript from today's Full Year 2008 Financial Results analyst briefing, for release to the market.

Yours sincerely

Carmel Mulhern
Company Secretary

TELSTRA – END-OF-YEAR RESULTS- ANALYST BRIEFING

BEN SPINCER: Good morning, everyone. My name is Ben Spincer, Director of Investor Relations here at Telstra. I'd like to welcome you to the results for the fiscal year 2008. I'd like to welcome those joining us at our new Executive Briefing Centre in Melbourne on the webcast and also on conference link. In a moment, I'll hand over to Sol Trujillo to run you through our results for the year. When Sol and John have spoken to you, we'll then be able to take questions both here in Sydney and in Melbourne. We'll do that from the fixed microphones. So at that point, I'd ask you to come up and ask your questions. Please, limit your questions to one only, if possible, so we can get through as many different questioners as possible.

I will hand over to Telstra's Chief Executive, Mr Sol Trujillo.

SOL TRUJILLO: Thanks, Ben, I'd like to welcome all of you here in Sydney, and I would also like to welcome those who are joining us for the first time from our new Executive Briefing Centre in Melbourne.

Today is about our results for the 2008 financial year, and, basically, I'm pleased to report another strong set of results on or ahead of guidance. We have continued to execute on our strategy set back in November of 2005 as the transformation continues to redefine the entire business. All the way from mobiles to IP and from consumer to business, the results are flowing now through our financial performance. I am also pleased to report that we have maintained the final ordinary dividend at 14 cents per share.

Now, this management team has established a reputation of delivering on their commitments and, clearly, this year is no exception. Our value differentiation strategy is clearly working. We have grown both our top and bottom line with our retail sales revenue growing 5.9 per cent, and we beat the important earnings guidance metric with EBIT growing 9.1 per cent on a guidance basis.

If you need further proof our transformation execution is delivering on our promises, we generated $3.9 billion in free cash flow, an increase of $1 billion over last year, and we are confident of achieving our $6 billion to $7 billion target in 2010. We are now generating more free cash flow than we are paying out as a dividend, which, again, was an important metric for us.

This is the second consecutive year that we have grown our sales revenue by over $1 billion, with sales revenue up 4.2 per cent. We have enormous scale in this business, and we have leverage, and this management team knows how to leverage it.

We continue to win in the marketplace. Our value differentiation approach, along with our customer focus, helped deliver another strong set of business unit performances, with retail sales revenue up 5.9 per cent, driven by 3.6 per cent growth in Enterprise and Government, their best performance since competition began - David, congratulations; in consumer, PSTN revenue grew by 0.5 per cent, and overall, they grew revenues at 6.1 per cent - David, congratulations; in business, mobiles services revenue was up 19.5 per cent, and overall revenues in our Telstra business were up 8.6 per cent - Deena, congratulations; Sensis grew its sales revenue by

8.1 per cent, again, a world-leading performance - Bruce, congratulations; on our broadband business, about which you'll hear a little bit a little bit later, obviously, we continue to lead the market here in Australia, but we also continue to lead the world in terms of both broadband growth as well as ARPU associated with the growth - Justin, congratulations; if we look at, again, our Telstra countrywide business and how we compete, not only in the cities but in the regions as well and stellar growth that is very strong, single-digit growth at the upper end here - Geoff Booth, congratulations; and on our wholesale side of the business, as we have been migrating our business across from what we would call the old regulatory model to a new regulatory model where our customers are migrating from resold services and now we are moving some of their services on to an unbundled platform, we continue to manage that well - congratulations Kate McKenzie on your results as well and the wholesale portion of our business. On our operating side, what can I say? What Greg Winn and the whole team have done is terrific. The cost takeout, since we have launched our initiatives in 2005, our field force productivity is up 40 per cent. I will cover some of the service metrics as well, but, again, Greg, Mick, the whole team, congratulations, a terrific year.

So the transformation benefits are now driving earnings growth, with operating expenses growing at just 3.5 per cent, the lowest yearly expense growth in four years, as we focus on reducing our costs across the business and the benefits of our transformation continue to emerge.

Back at Investor Day in 2005, I had talked about the fact that Australia was going to be our first priority, our second priority and our third priority. Well, I am pleased to report that we grew our domestic revenue by 4.8 per cent in the year, which is well ahead of our global peers. Remember, as we think about our operations here in Australia, it is not just about beating those that we compete with here; it is also about being best in class in the whole category globally. The numbers that you will see today continue to reflect how we rank at the top of our class around the world.

At the present time, we are seeing minimal impact from the prevailing macroeconomic environments on our domestic business. Yes, the cost of fuel and power has risen and the cost of debt has gone up. But, overall, our customer-centric and value-differentiated approach is so far combating these factors in our business.

In retail broadband we continued to defy our global peers by growing both our market share and ARPU and actual volumes simultaneously. Our 3G penetration has now reached 47 per cent of our mobile customer base. We have left most of our global peers behind - a ringing endorsement of our early and significant investment in 3G at our 850MHz spectrum range.

Our strategy in investment in mobiles is redefining the market both here in Australia and around the world. We are resetting global expectations.

John will discuss our new guidance in more detail, but I just want to highlight a couple of the most important points with all of you now.

For 2009 we expect continued robust growth at the top line, coupled with further EBITDA margin expansion. In 2010 we have again raised our long-term targets for revenue growth whilst maintaining our 46 to 48 per cent EBITDA margin target in 2010. Driven by variable CAPEX associated with our revenue growth, we are raising our 2010 target for CAPEX to sales to around 14 per cent, but our $6 billion to $7 billion free cash flow target in that year remains unchanged.

Central to our transformation and central to delivering an excellent customer experience is the IT transformation. For our migrated consumer customers, we have moved from managing their data across 74 billing products and ordering systems to just three. I am pleased to tell you today of the outstanding progress made by our IT transformation team. We have now migrated 3.3 million customers and 4.3 million services. To be quite frank, we did not achieve our ambitious target of 5 million customer migrations before the end of June, but, more importantly, I now am probably more confident than ever about the cost takeout targets that we have associated with our business, because we have migrated over 3 million customers. We will have our 5 million probably by the end of September. When we do that, we now know that the code is absolutely right. So the experiences that you have seen with other companies that had to back track and, in effect, step back for what they have launched in terms of billing systems changes, OSS and other flat forms, we do not have that as an issue. That is now, essentially, out of the way, as we have migrated over 3 million customers, and we will be moving to the 5 million and to the 7 million before the end of the year. That is the good news as part of our story here. Again, we will continue the migration not only of our consumer but, later this month, we will begin the migration of our business customers.

So, let me be clear: the code is deployed and running at scale. This has all been achieved without breaking what I would call our central commitment that there should be no interruption to either customers or the wider business. We have seen no increase in complaint volumes, and all billing accuracy and revenue assurance metrics are equal between the new and the legacy systems that we have in our business.

To some of the naysayers out there, let me again remind you of the scale of what we are looking at. Again, we have emphasised this all along: we are going to do what is right in the process as we go forward. The breadth and speed of the transformation are unparalleled. We are the only what I would call quad play across the four pillars of PSTN, broadband, wireless and Foxtel. We have simultaneously built or refurbished all data centre infrastructure, and we have 100 per cent new applications in place in addition to what we have previously talked about.

Half of our employee base is involved and all internal and external channels as well. We have processed hundreds of thousands of orders and millions of bills to date, and processed more than 4 million call records per day on this new set of capabilities. We have more than 15 million lines of code in the new environment, including 5 million in customised software for migration and mediation purposes only. This supports old-to-new and new-to-old integration, and, essentially, it will disappear when we finish TR2, so that we will have completed the mass market portion of our transformation. Some 1016 OSS and BSS systems have now been decommissioned since 2005, including 365 IT systems. We have now trained more than 12,600 of our staff on the new systems.

In case anyone could be in any doubt, let me again remind you of all the complexity of what we are undertaking in the legacy systems, and why we are being so meticulous about what we do as we migrate our customers. We had 2200 products; we had 236,000 product codes; we had 421,000 pricing charge codes or packages, as you might call them in an external context; we had 10,000 discount plans.

When you think about that in a context of permutations that we have to manage as we think about ultimately getting a customer migrated and being able to see the services actually work as we migrate them and to see that the charging for the services that we provide actually show up on a bill and to make sure that we can actually collect it, and then to make sure that we can monitor and serve it, that is what this work is all about as we think about the meticulousness by which Greg Winn and Tom Lamming and John McInerney and the whole team have been working.

So, we have run 90,000 test cases to cover a vast majority of the kinds of permutations that might be an issue, as you have seen with other companies that have had failed conversions. This has ensured us to the point that we are at today where we now have, as I mentioned before, the live customers, the migration, having gone very smoothly, so far. The time and care taken ensured the new systems would work and that we could both bill and collect, as I said a minute ago. As any informed observer would expect, we are doing it carefully, prudently and successfully, because the payoff to our customers and to the business will be huge. That is why, when some of you will ask the question, does any of this affect our cost takeout, the answer is no. Our free cash flow stays the way it stays as part of our target. That is why our EBITDA margins, as we have set at 46 per cent to 48 per cent, do not change.

Our transformation is rearchitecting the business essentially for what I call the broadband world. Today and over the last few weeks you have clearly seen the difference between a Telstra which has architected their business for the broadband world and those that we compete with, who have an architecture for the old narrow band world and are trying to be broadband in what they do.

We said we would build Next Generation networks and IT systems, and we have. Since the launch of the Next G network, mobile services revenue growth has accelerated from mid- single digit to double-digit levels. Since the launch of the Next IP network, IP and data revenues now exceed legacy data services revenue. We have invested in transmission and backhaul, which, again, for those of us that know how to run the business, we understand an end-to-end experience, not just component pieces.

We said that we would be broadband focused, and we have been. In the case of our retail broadband, our retail broadband market share and ARPU have both increased, which has defined the trends around the world. Let me be clear: at Telstra, we do not just talk about SIOs; we really focus on margin share and revenue share, because those are the ultimate metrics that show up for a shareholder. So we focus on all the above.

Once again, we have outgrown our nearest fixed broadband competitor by four times. Nothing has changed. We said we would integrate, and we have. Sensis, BigPond and Foxtel content is now available on mobiles, and more is coming.

We said we would focus on the customer, and we have done so. We created a dedicated small-medium enterprise unit, that is now called Telstra Business, and segmented our business around customer needs. We can see in the results that I mentioned a little bit ago that we have outgrown the market, and we have created dramatic growth in this part of our business.

We said we would focus on delivering value to customers, and we are. Our multi-product holdings have increased, and consumer PSTN over the last couple of years has halved as we look at the churn rate on consumer PSTN. You will not find that anywhere else in the world.

We said we would revitalise our retail experience for customers, and we are. We opened recently five new world-class T [life] stores this year, and a further 88 new or refreshed stores are planned to open in fiscal 2009. The ARPU per customer that are now travelling through those stores is about 40-plus per cent higher than in our traditional stores. So the strategy of Telstra is working at all levels.

While there is a fascination at present from some quarters on the IT transformation, it is important to remember the overall transformation is much more than just IT; it is more than just building new networks; it is about building what I have called a media-comms company of the future.

The transformation is a bold strategy, and we are delivering results. We are resetting and redefining global expectations as to what is possible. We have already made significant progress over the past three years, and all of this has been the objective associated with being a global leader. It is a journey, and let me just say, we are not even done yet. We are not even close to where I think we can be as a company in terms of this whole media-comms space.

Our investments in the transformation have allowed us to redefine the service experience of our customers across a wide range of metrics. This is supportted, because as we track our customers every year, starting back in the '05 time frame to today, all of our customer value attributes metrics have gone up, and they have gone up relative to our competitors in a big-time way.

As we look at those reports that we file with the regulators and the government agencies, but also as we look at it in terms of how we think about managing volumes in the business, our network trouble reports have fallen 35 per cent since 2005. That is counting in some of the flooding and some of the natural disasters that we have had here in Australia, including the flooding up in Queensland and the Northern Territory earlier this year.

ADSL held orders are now down from more than 5,000 in 2006 to around 100 today, even though our broadband volumes have increased. We continue to meet 95 per cent of our customer commitments. To put this in context, we fulfil more than 2 million customer commitments per month, and we are now meeting our wideband customer delivery dates 95 per cent of the time, a 14 percentage point improvement since November of 2005.

While all this has been going on in terms of refining, rebuilding, changing our platforms, et cetera, et cetera, and introducing new products and services, service delivered to our customers has gone up; reliability of networks has gone up; and the customers are giving us that feedback, both in terms of when we survey them but, more importantly, when they buy, which is, to me, the ultimate metric.

Unlike, perhaps, one of our competitors and others who have been plagued with some of the problems on availability and other issues, we are meeting all of our standards, and our availabilities run at very high levels. Our Next G network is running at near 100 per cent availability; our broad band network is at four 9s; PSTN at five 9s; and our transmission essentially is at 100 per cent.

We have invested in our networks. As we think about over the last three years, our mobile performance continues to lead the world, with mobile services revenue growing 12.3 per cent, and total mobile revenues grew 12.7 per cent. Again, I am just a business person, but, as I look at it relative to our largest competitor, we only outgrew them four to one in terms of services revenue. So, I think that our team is doing relatively well!

The catalyst for this growth has been the superior speed, superior coverage, superior quality and superior capacity offered by our Next G network. True differentiation exists, and the numbers absolutely support our 3G strategy. During the year, 3G revenue overtook 2G revenue, and it now accounts for more than half of mobile services revenue.

We had 4.4 million 3G subscribers at the end of June, up 117 per cent year on year. 3G mobile penetration has more than doubled since June 2007 to 47 per cent, and 3G postpaid ARPU was up 5.3 per cent at $77.51.

Mobile data revenue as a percentage of mobile services revenue has almost doubled since June of '05 to more than 30 per cent this financial year. During the year, non-SMS data revenue overtook SMS. The main driver of mobile data growth has been the ongoing strength in wireless broadband. This is despite the sceptics who said we could not maintain our wireless broadband momentum. We continued to add 20,000 subscribers per month. Again, value does matter.

We have built a half billion dollar business in just two years, and we now have 588,000 subscribers generating ARPU of around $90 per month, still.

But mobile data is more than just wireless broadband. Other data revenue grew 60 per cent in the second half from higher email, content, MMS and browsing revenues, our wireless email penetration continues to increase, and this will be boosted further by the 3G Blackberry Bold and other new smart phones, such as the HTC Diamond, Samsung 617, Sony Ericsson X1 and the Palm Trio Pro. We are continuing to lead the market and, by the end of the year, we will have broken the speed barrier again by offering peak network downlink speeds of 21Mbps per second and uplink speeds of 5.76Mbps per second - the first operator in the world to do so. The pressure continues; the innovation continues; the differentiation will continue, where every Australian in this country will understand that, when they think about networks, when they think about services in the mobile space, along with everything else, Next G is the best, will be the best and will continue to be as we go forward.

Our IP access revenues continue to grow, highlighting the success of our Next IP network. Our IP and data revenues exceeded legacy data revenues for the first time in the second half of fiscal 2008. This is a significant milestone, which illustrates how we have redefined the business to focus, again, on IP.

Contrary to conventional thinking, we have grown the portfolio through the migration of existing customers, driving higher ARPUs by providing a value proposition across bandwidth, speed, scalability, security, applications, reliability and services - and did I say reliability? In case I did not say it loud enough, reliability and security are very important to our customers.

Our government business is growing strongly on the back of our differentiation, particularly with the integration of the Next IP and Next G networks.

While our IP revenues continued to grow strongly, our PSTN revenue decline continued to slow, decreasing 3.2 per cent in the year, compared with a 4.4 per cent decline in 2007, as we win at the retail access line level.

Retail PSTN access lines grew for the 14th consecutive month in June, and our consumer PSTN revenue grew by 0.5 per cent as the strategy of segmentation and subscription pricing plans continued to deliver the results that we were looking for.

Again, our PSTN performance is unmatched by our global peer group. We expect PSTN revenue to continue to decline as mobiles and broadband continue to grow. This was highlighted in July when total mobile revenue exceeded PSTN revenue for the first time in the history of this company.

We are also proud of our broadband business. We degree our market share by a further 2 percentage points to 49 per cent, and ARPU increased 2.9 per cent to $53. I cannot say this frequently enough, for those of you that pay attention to other companies around the world: there are no other companies that are growing market share, that are growing ARPU in this space. It does not happen, but it is happening here at Telstra.

In contrast to 2005, our broadband growth is now significantly greater than the decline in PSTN in absolute dollar terms. Our strategy of simple value-based offers is working as the number of customers signing up to higher value liberty plans grows. Our liberty plans give our customers high data allowances with bill certainty. As a result, churn is reduced to world's best practice at under 15 per cent.

At the end of June 2008, more than two-thirds of our fixed broadband base were on a liberty plan, and in quarter 4, 75 per cent of fixed broadband sales were on liberty plans.

Our emerging domestic content revenues, which includes, Sensis, internet and mobile value-added services, are expected to exceed $500 million in five years. The early trends are encouraging. Mobile video streams grew 137 per cent year on year; online search revenues more than doubled; BigPond web tab unique views are growing 6 per cent month on month. Foxtel completes our suite of media-comms assets, and the business has strong momentum, with revenues up 17 per cent, EBITDA up

48 per cent and free cash flow up 43 per cent.

During the year, Foxtel's subscriber's passed the 1.5 million mark, ARPU increased to almost $85, and churn reduced to 13.3 per cent in the second half. Also in June Foxtel introduced high definition, and almost 40,000 subscribers have already signed up to the service.

Today, I am pleased to announce the launch of our new BigPond music service. BigPond is changing the game in music, just as we did in other categories. We will offer tracks from all major record labels in a format that can be transferred between most music players, including the iPod, Sony Walkman, Xbox, PS3 and home media centres.

From today, Australians have a real choice between our competitors' world, where consumers have to juggle devices and formats and often find their music locked on to one device versus BigPond's open world of convenience and simplicity.

BigPond's music will be easier to find, simpler to download, and cheaper to buy. For BigPond customers, it will be free of bandwidth charges. I would just say to all of you as you leave today, go through the store on the way out and you will see how it works, because it is pretty cool.

Our leadership in innovation extends to the competitive advantage we have built around speed, coverage, content, reliability and services as we continue to consolidate our position. The combined reach of all its sites gives Telstra one of the largest online audiences in Australia, with the highest share of the online advertising market. As a cornerstone of our media-comms strategy, we are also outgrowing the market in the five major categories of sports, news, games, music and movies.

Sensis is another one of the key drivers of our media-comms strategy. The top line grew by more than 8 per cent as the print business defied global trends and digital media revenues continued to grow at strong double-digit levels. I do have to say with a big smile that the print business, where many people had given up a few years ago and had relegated it to a no-growth and, actually, as you look around the world in virtually every country, it has been a negative growth category, we have a special team here led by Carol Johnson and some other folks working for Bruce. They have done something that has defied the laws of gravity around the world - that is, again, our print directories revenue grew 5.4 per cent for the year, with Yellow print revenues returning to growth and White Pages print revenue growing at double digits. Yellow and White Pages online directories grew by over 20 per cent, to exceed $200 million for the first time. But Sensis is more than just print. Our digital businesses had strong double-digit growth. MediaSmart advertise play advertising grew 41 per cent; Whereis satellite navigation threw 52 per cent; and our SouFun business, in terms of unaudited US dollars, grew 67 per cent.

If you combine all of our digital revenues, including online directories, you see that digital media grew 32 per cent to $426 million. In fact, digital media has grown from 7 per cent to 20 per cent of total revenue in three years. This result has been achieved through the Sensis transformation of improving usage, advertising ROI, systems and processes. For example, Yellow network usage grew 4.3 per cent to over 10 million a month, and in July, yellow.com.au usage grew 19 per cent in one month after we opened up listings to various search engines. We expect Sensis to achieve mid-single digit revenue growth and to continue to further improve the revenue trends in the metro print canvasses.

Our presence in China continues to expand. It is the largest online market in the world in terms of eyeballs, and our combined sites in China attract more than 2 billion page views a month. SouFun serves 50 per cent more pages each month than all traffic to nineMSN, Fairfax and News Digital combined. SouFun's expansion is on track. When we acquired SouFun, they had a presence in 45 cities. In two years, this has grown to 85 cities, and we plan to expand by the end of this calendar year to 100 cities, each city having a minimum population of 1 million people.

Our recent investments in the online auto and digital device markets place Telstra in a strong position to build growth in the Chinese advertising sector. We are now no. 1 in real estate and auto. To understand the scale of the China auto market, for instance, they sell more cars in two weeks than Australia sells in a year.

With the continued growth in China, we expect our China portfolio to deliver revenue growth in excess of 50 per cent this year on a proforma basis. In five years, we expect our China businesses to grow at almost $1 billion a year in revenue and earn EBITDA margins between 30 per cent and 40 per cent.

For a moment, can I just compare Telstra's Chinese businesses to another one that has gotten a lot of publicity - Alibaba, a Chinese online company with a market cap today of about $5 billion in today's market and revenues forecast at around $500 million in 2008. This is a business forecast to have 20 per cent EBITDA growth which is a fraction of what Telstra's Chinese assets are achieving. To me, this suggests that the market has not yet understood where we are going and what we have in our portfolio in terms of the investments in that region.

Finally, our transformation success is driving our strong financial performance and is redefining all aspects of the business. We are at or near the top of our global peer group across many of the key financial and operational measures. We are getting on with the job of removing the complexity, the silos the, duplication in infrastructure, products, hundreds of platforms, IT billing systems, et cetera. We have confidence in the future and confidence in our strategy, and this is reflected in our fiscal 2009 guidance and the raising of our long-term targets for revenue growth, while maintaining our 46 per cent to 48 per cent EDITDA margin target in 2010.

W remain on track for our $6 billion to $7 billion of free cash flow in 2010 as we continue to focus on creating shareholder value. We are transforming into a media-comms company. We have built the Next Generation networks, and we are truly an integrated operator. The IT transformation will bring the media-comms vision to life.

I will just make one last comment: in November, when we meet and we talk on what we have established as our tradition of Investor Day, you will get a chance to see the full impacts of the value of what is happening in our channels, in our stores and everywhere that will be the full product and the full playout of much of this TR1 work that thousands of people in Telstra have been working on. It is going to be exciting, because we really take the game to another level.

I am going to hand it over to John Stanhope now to take you through the numbers.

JOHN STANHOPE: Thank you, Sol, and good morning to everybody here in Sydney and Melbourne and elsewhere on various medium that we are going out live with today.

I am very pleased to report another set of strong financial results. Again, we have met or we have exceeded guidance on all measures. Sales revenue grew 4.2 per cent or nearly $1 billion to $24.7 billion. Total revenues grew 4.7 per cent, or $1.1 billion to $24.8 billion. EBITDA was up 5.6 per cent or $555 million to $10.4 billion, with margins expanding to 42.2 per cent. Reported EBIT increased 7.7 per cent or $447 million to $6.2 billion. EBIT was up 9.1 per cent on a guidance basis, after you adjust for CSL New World's accelerated depreciation of $77 million. Profit after tax and minorities rose 13.5 per cent to $3.7 billion. The higher profit relative to EBIT resulted for relatively flat finance costs after the mark-to-market adjustments that are required by IFRS, and a slightly lower effective tax rate due to some one-off items, like refunds.

While revenue growth appears to have slowed in the second half, there are a few factors that are driving this, including the profile of low margin handset revenues across the year, the sale of businesses, and the exceptional first half of '08PSTN performance, which we said could not be sustained in the second half. None of these are impacted by economic activity levels, and we expect revenue growth continuing around 3 per cent to 4 per cent as per our guidance that Sol showed earlier. We have maintained our fully franked final ordinary dividend at 14 cents.

Let me add a little bit of flavour to the guidance given earlier by Sol. After our strong performance in fiscal year '08, and in spite of had slowing economic conditions, we are expecting to maintain our revenue and EBIT growth in fiscal year '09. So, for fiscal year '09, we expect: revenue growth of between 3 per cent to 4 per cent. EBITDA growth of between 6 per cent and 7 per cent; EBIT growth of between 6 per cent and 8 per cent; accrued CAPEX, we are guiding today that it will be between $4.3 billion and $4.6 billion, obviously a reduction on the prior year.

With respect to the fiscal year '09 guidance, it is important to note the following: we expect total depreciation and amortisation of around $4.5 billion as we begin the amortisation of our new IT platforms and we have a similar level of accelerated depreciation for CSL's network as we have this year; $50 million is included in here for Foxtel distribution and, in fact, we have already received that distribution in the month of July; in addition, in the light of the continued revenue growth, there may be a small increase in the total operating costs in 2009 in order to support the revenue.

As we promised in February, we are also updating our long-term objectives as we cross the transformation halfway point. It is important to note that these objectives do exclude any potential NBN investments. Our revenue growth CAGR for the fiscal year '05 to fiscal year 2010 increases from 2.5 per cent to 3 per cent to 3 per cent to 4 per cent as the benefits of our transformation continue to have a positive impact on our top line. EBITDA growth, CAGR for the five years to fiscal year 2010 increases from 2.5 per cent to 3 per cent to 3 to 3.5 per cent, while our opex growth guidance increases from 2 per cent to 3 per cent to 4 per cent to 5 per cent. Importantly, we are maintaining, as Sol has said, our 46 per cent to 48 per cent EBITDA margin objective on the higher revenue objective.

The workforce reduction objective is now at the original target reduction of 10,000 to 12,000 FTEs by fiscal year 2010. This will give us maximum flexibility on how we structure the future business as we grow key areas, such as mobiles and broadband.

We are also increasing our CAPEX to sales guidance today to around 14 per cent. Let me just explain why. This is driven by the customer demand variable CAPEX. As you grow revenues, you get costs to goods that follows. You also have a variable element of CAPEX. That is what is occurring in our business. It is driven by around about $300 million in customer demand and driven growth and about $200 million in additional transformation CAPEX. When you think about that, the size of our transformation CAPEX program is very large. The 14 per cent guidance is in line, I notice, with market consensus, and, you know, growth is a good thing. We are growing our CAPEX in order to grow the business, and that is a good thing.

The IT transformation remains on track with more than 3.3 customers and 4.3 million services already migrated. I want to confirm that our appropriately cautious approach, as outlined by Sol just before to customer migration has not had a material impact on financial performance, and will not have an impact on our guidance, as you can see from your updated long-term guidance that we bring to you today.

Finally, I want to highlight that we are reaffirming our fiscal year 2010 free cash flow objective of between $6 billion and $7 billion. This is a critical target. It is one which we watch very carefully, and it is the overall objective of our transformation.

So let me just look at free cash flow for a minute. Today's results show we continue to deliver and are on target for our free cash flow objective that I have just mentioned. We generated an additional $956 million in free cash flow over the year.

Over the next two years, we will extract further operating leverage as cost savings are achieved, and cash CAPEX does continue to decline. So this does give us the confidence of hitting that $6 billion to $7 billion target in fiscal year 2010.

I just want to bring to your attention the changing product mix that has occurred since we started on this transformation journey back in November 2005. I will just give you a quick sense of this, as it already has fundamentally changed our business.

This management team has taken the company from a slow incumbent, dominated by legacy networks and technology to a fully integrated media-comms business, where the Next G and the Next IP networks drive growth in new product revenues. New revenues already constitute 27.3 per cent of domestic sales revenues, compared to our previous target of 30 per cent of domestic sales revenue by the fiscal year 2010.

The legacy fixed revenues now only make up 36 per cent of total sales, a fall of 9 percentage points over three years. The combination of mobiles and internet also make up 36 per cent of total sales - an increase of 11 percentage points over three years during a period when the base has grown by $2.5 billion. I think that is incredible. Just think about a business growing by $2.5 billion over three years on the top line.

So, let me talk a little bit about the fiscal year '08 product growth. Just returning to fiscal year '08 performance, domestic sales revenue growth was driven by solid results across our whole product group. The highlights include mobiles growth with mobile services revenue growth of 12.3 per cent,3G postpaid ARPU up 5.3 per cent to $78, our mobile data revenues were up 44 per cent to more than $1.5 billion. When you exclude wireless broadband from mobile service revenue, the mobile service revenue still grew an impressive 7 per cent, and the internet was equally impressive, where we increased broadband market share by 2 percentage points to 49 per cent and grew ARPUs to 2.9 per cent to $53. Fixed broadband growth remains strong at 30 per cent, with services and operations up over 330,000.

In PSTN, declines were contained, with our market-based management strategy driving customer win-backs and growth in customers on subscription pricing plans from 364,000 to just under 600,000 in the last 12 months. However, as I point out on this graphic slide here, the ACCC's below-cost ULL pricing negatively impacted PSTN performance. As this chart shows, there is a significant gap between the revenue we earn from unbundled local loop and what it costs us. This has resulted in a cumulative shortfall of at least $130 million, and this gap is getting wider. IP access and internet direct revenues exceeded legacy data, as Sol mentioned, for the first time in the second half of fiscal 2008.

Let me talk a little bit about the mobile growth. I want to comment further, because some persist to judge performance solely on SIO terms. As Sol pointed out, we believe it is very important to look at revenue growth, because there are multiple sims these days, and people walk around with many devices for various reasons. The important point is that we had mobile services revenue growth of 12.3 per cent for the year, a great performance whichever way you cut it. We believe we grew mobile services revenue market share again from 43.6 per cent at the end of fiscal '07 to 44.2 per cent in fiscal '08, an increase of 60 basis points. Mobile services revenue growth for postpaid was even stronger, at 15.9 per cent, which is a world-leading achievement. It shows that our strategy of winning revenue market share rather than capturing SIOs in low-value segments is delivering value to our shareholders.

The trend in pre-paid services and operation has been volatile as we periodically disconnect inactive SIOs, particularly through the year we have just had, given the CDMA network closure. The growth is coming through value differentiation, not costly price competition. Our mobile EBITDA margins increased 2.3 per cent to around 36 per cent.

Let me just emphasise now a bit more than Sol has on retail performance. Since we manage our business on a segment basis and not a product basis, I will discuss the performance in context of our retail segments. Overall, we had strong retail sales revenue growth of 5.9 per cent. So let me take you through the segments one by one.

First, consumer business. Our consumer business has thrived since needs-based segmentation was introduced. Leveraging market-based management, we are transforming our culture, products, service offerings and channels to produce a better experience for the customer.

In the face of strong headwinds from ULL and mobile substitution, we grew in this segment PSTN revenue by 0.5 per cent and added 56,000 services in operation and have more than 580,000 customers on subscription pricing plans. PSTN churn was under 5 per cent. This is a strong vindication of market-based management.

Mobile services revenue grew 7 per cent with 72 per cent of postpaid customers on 3G as we expanded the Next G handset range to more than 50. This was achieved with subscriber acquisition and recontract costs being reduced by 24 per cent in the consumer segment. While second half growth has slowed, it came after a bumper second half '07, and we are expecting around double-digit revenue growth in consumer mobile services in the fiscal year '09, which we have begun, despite increasing competitive intensity and the uncertain macroeconomic outlook.

Total internet revenues grew 38 per cent in this segment to $1.5 billion, driven by services in operation and ARPU growth. DSL ARPU was up 6.9 per cent as we migrated customers to the faster speed liberty plans, which is a terrific achievement in the face of fairly fierce broadband competition.

Let me now turn to the business segment. Telstra Business grew sales revenue 8.6 per cent, a very strong result across the whole product range and key products in Telstra Business. We expect the margins will expand as we drive scale in this newly formed business unit.

Telstra Business delivered another great mobiles result with services revenue up 19.5 per cent. Did you hear that - 19.5 per cent. Mobile data revenue now accounts for 23 per cent of services revenue, an increase of 6 per cent. 3G now represents 65 per cent of the business postpaid customer base, up 36 percentage points during the year, and 3G ARPU has grown 15 per cent in the year to $97 in this segment.

Broadband revenue grew 51 per cent, and customers on business grade fixed broadband products grew by 62 per cent. We also achieved strong revenue growth of 134 per cent in business grade wireless data plans, as more businesses realised the productivity benefits of fast and reliable mobile broadband.

IP and data access revenues were up 26 per cent in this segment, with strong growth in Internet Direct and IP Access portfolios for high-end business customers.

In fixed, we grew 1 per cent, despite the market declining by 2 per cent. We added 30,000 PSTN S. Os and believe we are winning these customers in both competitive on-net and off-net areas where the competition is strongest.

Sol also mentioned the very strong performance in Enterprise and Government. It had a very strong year. It grew revenues 3.6 per cent, their best performance since competition began, and they also reduced costs. Revenue growth came from winning new contracts and driving value for customers in an integrated IP world. We recently signed over $960 million of new business, including major deals with Medibank

Private, the Department of Defence and TABCORP. Customer satisfaction also remains at all-time highs.

Strong core carriage growth continued, and IP Access growth of 26 per cent more than offset the decline in the old legacy data networks. This demonstrates that the transformation is delivering tangible benefits for customers and value for the shareholder. The launch of Next Dimension Working and the application of value-based management provides us the momentum in this segment going forward.

Mobile revenue growth in this segment was strong at 26 per cent. Non-SMS data revenue was up 74 per cent and represented 29 per cent of mobile revenues.

Finally, we have decided to keep Kaz as a key offering in the Enterprise market.

Let me turn to expenses. On the costs side, opex grew 3.5 per cent to $14.6 billion, and total expenses were up 3.3 per cent to $18.8 billion. This is in line with the comments that I made at the half-year results and on Investor Day back in November last year.

So let us just have a look and dissect the costs a little. Labour expenses rose 3.5 per cent. This was driven by a redundancy expense increase of $89 million to $238 million as we reduced absolute FTE numbers ahead of plan.

Excluding redundancy costs, or the growth in them, labour was up 1.3 per cent, reflecting increases in wages and sales commissions and additional costs of some specialist staff in the growth areas where we have the need for skills with new technologies.

These higher costs were mostly offset by an overall full-time equivalent staff reduction in the year of nearly 2,700, which excludes the acquisitions and divestments, such as SouFun and our recent China acquisitions.

Let us look at the directly variable costs. The directly variable costs increased at a modest rate of 0.6 per cent. While DVCs, as they are known, may again increase closer to revenue growth levels, it demonstrates our success in getting key parts of our costs base under tight control. Other directly variable costs growth of 4.9 per cent you see on the slide was driven by service fees associated with the sale of Foxtel through Telstra, so the pay TV revenue growth in Telstra. The key drivers of the directly variable costs to sales ratio of just 0.1 were declining subscriber acquisition and recontracting costs and flat network payments, which were assisted by the mobile termination rates decreases.

I just want to touch on subscriber acquisition and recontracting costs, because these have been managed very well. We have a decline here of 19 per cent year on year to around $149 per customer. You might recall this was up at $184 at the end of last year. This has been driven by two factors: firstly, falling handset costs due to greater scale with the 850Mhz band handsets, and, secondly, through market-based management where we are better able to target incentives to customer lifetime value.

The total subscriber acquisition and recontracting costs expense as a percentage of mobile services revenue has fallen from 17 per cent to 14 per cent over the year, and this is helping drive mobile margin improvement that I mentioned earlier. We believe a further small decline is possible again in 2009.

Let me look at what is called the "Other expense" area. It did increase by 6.5 per cent. A significant driver was IT professional services costs. They increased $147 million, or 35 per cent, as we continue to work on our consumer IT platform migrations and, as you saw, the 3.3 million customer migrations and so on. For 2009, this expense line will remain significant, as the second phase of the IT transformation is completed, and then, as we have said on numerous occasions, it will start to decline through the 2010 fiscal year.

Debtor and inventory impairment expenses, bad debts, if you like, and inventory write offs, they increased, though total impairments fell. You might recall that last year we had a Trading Post write down. The debtor impairment was driven by various factors, including higher dealer provisions and higher mobile bad debts due to higher postpaid volumes, and the higher inventory impairment was mainly due to obsolescence as a result of the CDMA disclosure and writing off some of the older CDMA handsets.

Let me talk about capital, capex. Accrued capex has passed the peak. We talked about the peak here being in '06-'07. Accrued CAPEX was $4.9 billion, a reduction of nearly $1 billion on the fiscal year '07's historical high, and in line with our '08 guidance of between $4.6 billion and $4.9 billion.

CAPEX declined across most categories as we passed the peak transformation spend and trend more towards what I would call a normal program. Transmission spend increased slightly as we invested in the Sydney to Hawaii cable, and we also contributed to the Asia-American gateway cable project. IT CAPEX remained high near $1.25 billion as we continued to work on TR1 build and started to invest in TR2. However, some items of CAPEX, such as softswitches, are now on hold, as we now announced previously, pending the outcome of the NBN process. Depreciation and amortisation of $4.2 billion included $77 million of accelerated depreciation in CSL New World as a result their new network build.

If there is just one thing that I want to leave with you today it is our focus on achieving this $6 billion to $7 billion free cash flow objective in fiscal year 2010. It is what the program is about; it is what the strategy is about - it is about developing strong free cash flow for our shareholders. Today's results show we are on target to achieve that. Of course, the work does not stop at the end of fiscal year 2010, because there are more costs to take out in fiscal year '11 and fiscal year '12. The transformation is allowing us to do that. It is building a new world-leading, sustainable business that will create continued long-term shareholder value.

Thank you, and we will now take some questions from various locations.

[ANALYST BRIEFING CONCLUDED]

TELSTRA - END-OF-YEAR RESULTS - QUESTION AND ANSWER

SOL TRUJILLO: We will go ahead and start here in Sydney and then we will move on to Melbourne.

QUESTION: Good morning, Sol. Congratulation on a strong result. Sameer Chopra from Deutsche Bank. I have two questions, one on network decommissioning. Network decommissioning started last year, and I was wondering why we are not seeing this starting to impact your cost lines at present? My second question, again, relates to capex, and I want to try to understand the extent to which inflation is impacting capex?

SOL TRUJILLO: Okay. I will let John go ahead and take both of those right now.

JOHN STANHOPE: Okay. When we talk about network decommissioning - there are quite a number of platforms that have been exited and platforms that have been capped, meaning we are not spending any more money on them - it takes time to get the customers off platforms. It takes quite some time to actually be able to close them down. So whilst we have stopped work on them, there are still some small running costs, as we work through the process of migrating customers off. Nobody should underestimate, and we do not, how much work is getting the customers to migrate. So, there is a lag, and I guess we have said all along that there will be a lag, and that is why the costs some take time. You also see the capex is going down because we have capped spending on those platforms as well. You can see it across the mix of our capex, less in fixed assets, less spend in the capex core network.

Sorry, what was your question on inflation?

QUESTION: Inflation's impact on capex. Your capex came in at the upper end of your guidance, and you were suggesting that perhaps there is another $200 million in the 2010 number on capex. I was wondering whether it is equipment costs, is it scope issues?

JOHN STANHOPE: Capex is not impacted a lot by inflation, all, many of the contracts will have price escalator clauses in them. Usually, and most of time in most technologies you will find a cost curve that is going down as technology improves and innovation takes place. So it is not a huge impact, but there is some. There is some price escalators in the contracts with respect to technology delivery. But the capex is on this pathway down, as we said it would be. You heard me say today that we've got a little more capex for the fiscal year 2010. The good news is it is related to growth primarily.

QUESTION: You have most of your capex contracts locked in for '09?

JOHN STANHOPE: Sure.

QUESTION: Thank you.

SOL TRUJILLO: I just want to emphasise the last point there, that when I think about capex we had talked back in November of '05 about where we would be progressing on capex given growth rates. We are talking about much less growth rates than where we are at today. So when you look at 12-plus per cent services revenue growth on mobiles, obviously, we are spending more on mobile infrastructure than we built into a plan, which is a good thing. We want more growth, and it is driving a lot of bottom-line benefit. As we look at broadband and the growth rates that we have of achieving nearly 50 per cent broadband growth rates, and you look at all the DSL, the DSLAMs and all the things that are associated with it, as we have deployed additional capital to reach more places in Australia and to increase our market share, all of that is part of the capital plan, but that is good capital spend. So, when I think about capital and capex, that is why we gave the guidance that we did in terms of the range, because we set a lot of stretch in this business on about everything that we do. The good news is that our team is meeting that stretch.

QUESTION: As an absolute level you would expect capex to increase, but as a percentage, we thought it would stay at about 12. Thank you.

QUESTION: Laurent Horrut J P Morgan. I just have a couple of accountant-type questions. On the D&A, there's a reasonably material step up from '08, John, is that the level you are expecting it will stay at beyond 2009-2010, and would you give us a bit more colour on what has driven the increase?

JOHN STANHOPE: As I said in my speech, we are starting to bring on ready for use. That is when you start to depreciate or amortise some of this software. When you have got customers on it, guess what, it is working, it is in use, then we are starting the amortisation. So the amortisation starts to kick up on the software. The lift to $4.5 bn, as I have given some guidance on in the '08-'09 year, is due to that, but also we have got, again, some accelerated depreciation, about the same level, in CSL. Primarily, it is driven by the software now coming into service.

Your question regarding what it is going to be like further out, it will maintain those sorts of levels for the next couple of years.

QUESTION: Second question on the tax rate, you mentioned the effective tax rate of 28 per cent is a bit below. In 2009, do you expect the one-off items to play the same way? What should we look at?

JOHN STANHOPE: I am not going to try and guess the effective tax rate in the '08-'09 year, but, as you would know, in any year you lodge objections and you get some refunds, it depends on the R&D claim, and there will be R&D claims in this fiscal year. The effective tax rate could fluctuate about 1 per cent from where it is today.

QUESTION: Just one last question: you are the biggest supplier of Commander Communications. They have just been placed under administration. Any exposure there since the announcement that you would be particularly worried about?

JOHN STANHOPE: Commander is a large customer of ours, but in terms of the debtor exposure, it is not material.

QUESTION: Last question - - -

SOL TRUJILLO: We are going to move on to some other folks. We are going to go to Melbourne.

QUESTION: Ian Martin, ABN Amro. Congratulations to you and your team on a strong result. You seem to have everything working pretty smoothly now and more confident of the target over the next year or two. I was just wondering when shareholders might fit from that in terms of an uplift in dividends? Is that possible in '09, or we waiting for 2010 for that uplift in dividends?

SOL TRUJILLO: Ian, the answer is the same as we always give: each year the board will assess our relative position. But, like you said, obviously each day that passes, each year, each quarter, there is more and more confidence as we hit the numbers that we have been hitting. The board will assess at the end of the next fiscal year what we want to do from a capital policy, whether it's dividends or share buybacks, or, if we have more growth opportunities in terms of how we use the capital. But, rest assured, the board is very mindful of treating our shareholders well, whether it be through share price appreciation or dividends.

QUESTION: In previous presentations, it has always been a highlight that the no. 1 priority for the company is fully franked dividends. I have not seen that in the presentation today.

JOHN STANHOPE: The 14 cents final dividend will be fully franked. If you look through the material that has been distributed, you will find that our franking account as at the end of 30 June '08 is about $74 million. So our expectation is that going forward we will still be able to provide fully frank dividends.

SOL TRUJILLO: We will come back here to Sydney.

QUESTION: Mark McDonald from BBY. A couple of questions around the minutia then a bigger-picture one, if I may. I am a Telstra customer, consumer, and every month I get two bills, one from BigPond and one for my home-fixed service. Just in terms of your IT transformation, I am wondering what the milestone is as to when I might get one bill in that scenario and, more generally, what sort of cost savings, apart from postage and printing, Telstra might realise by sending me one bill?

SOL TRUJILLO: John, do you want to talk about the cost one and then we will come in on the time frame?

JOHN STANHOPE: Obviously there are a couple of things happening - more people moving to single bills, and, of course, summarised bills as distinct from itemised bills. Obviously there is a cost saving that flows through in printing and paper, as you suggest. Of course, we are encouraging customers to also go online if they want the itemised bill. It is still available, but it is online.

The other cost savings that will come through in terms of billing is just reducing the number of billing systems that our front-of-house people have to deal with. Today they have various billing systems that they have to deal with. You heard how much we are reducing the number of billing systems that we deal with. So those cost savings will flow through.

But just think about this, and we have said this quite a few times: today we have got those 3.3 million customers on a new billing system. We still have some customers to go, so we are running the old. We have got something in the middle called a mediator that talks from the new to the old and the old to the new. Until we get to that point where all the customers are over there, we are still running a fairly high cost environment.

SOL TRUJILLO: Mark, in terms of you personally, you are in queue, so it will happen within the next - who knows - week or next month in terms of where you are in the queue of migration. We have got 3.3 million going ultimately to 7 million customers and some more along the way. You are going to be one of them.

QUESTION: Okay, so it is fairly soon. Thanks. The second minutia question, on your change in accounting standards, I notice with your service life for depreciation purposes you have reduced ducts and pipes down from 40 years to 32 years and distribution from 30 years down to 27 years. It is not intuitively obvious as to why you would do that, why the service life of a duct or a pipe would suddenly reduce so dramatically. The transmission equipment, I see, has gone the other way. I am just curious about why you are shifting relatively passive components of your network in this manner?

JOHN STANHOPE: What we do is we do annual service life reviews. We go to the technical guys who make an assessment of how long ducts and pipes are going to last, what sort of condition they are in, for example. We actually do have ducts and pipes out there that are damaged, so there will be a replacement program. All that is taken into account when we do it. I think we lengthened the life of fibre cable, for example, and we have proven that it is going to last longer. From the accountant's point of view, I take the advice from the technology guys, and we do it every year. The net impact of those movements, by the way, are quite small in terms of the depreciation outcome.

QUESTION: Thanks. My last question, which is the bigger-picture one, you have made some strong reaffirmations around $6 billion to $7 billion free cash flow. Two aspects to this: firstly, with the revised guidance around capex increasing, but the free cash position remaining within the same band, the EBITDA guidance and the revenue guidance remain constant. I am interested analytically in how you arrived at the same outcome with one of the negative components to free cash flow actually increasing. The second element to the question is, in the event of success in the NBN tender, what is the best estimate from Telstra as to the probable alternate outcome on the free cash $6 billion to $7 billion vision, given the potentiality of higher capex to fund a further broadband rollout.

JOHN STANHOPE: I will take the first one. There were just a couple of things that you said that were incorrect, and, of course, it will help answer the question. The capex does go up, but you said others did not move. They do. The revenue goes up. I said 2.5 per cent. It was 2.5 per cent to 3 per cent and it has gone up to 3 per cent to 4 per cent. The EBITDA growth has gone from 2.5 per cent to 3 per cent up to 3 per cent to 3.5 per cent. So, there is extra cash coming from an increased EBITDA CAGR as well. So, they do increase, and the maths work, believe me.

QUESTION: So it's a revenue uplift. Thank you.

SOL TRUJILLO: It is both revenue and EBITDA. But, in terms of the issue of how we think about an NBN kind of scenario, obviously, we have said all along that if we were to build five cities, it would take $4.5 billion to $5 billion, as we have done our calculations, if you include the Gold Coast as part of that. Over a five-year build period, there would be plus or minus $1 billion - I mean $1 billion, plus or minus a few hundred million, depending upon start points, et cetera, et cetera. So that is how we would think about an adjustment or how anybody should think about an adjustment to free cash, as we think about free cash flow.

QUESTION: Good morning, Sol, good morning, John. Tim Smeallie from Citi. I guess a couple of questions: firstly, if we look at the second half performance of PSTN, the rate of decline doubled to around 4 per cent. John mentioned that he was not seeing any indicators around economic weakness. I was just wondering, do you expect that rate of decline will continue, and what factors as a management team will you be focusing on to identify whether there is any economic flow through from a slow down in the economy. That is the first question. Secondly, last year, John, you gave us some insights into first half performance relative to second half '08. I am just wondering can we get any guidance for this time around. Do you expect the margin expansion will be second half loaded rather than first half? Following on from Mark's question, just looking at the regulatory challenges, how would you assess an option of a regulated last mile return, say, from the node to the home, if you are facing, say, a set price for that return as opposed to vending that last mile into the FTTN project and realising replacement value for that network upfront rather than the historic cost?

SOL TRUJILLO: Let me start with the last one. I will go to the first one, and then John will take the middle. In terms of the last question that you asked, we do not think that way. It is kind of a dumb idea, so we do not even think that way. In terms of the first one, you know, the issue for us, Tim, as we think about our business is that we are going to grow; we are going to invest wisely as we operate. As we think about margins and how we manage, it is goes down the same path that we have been managing before. If there is something specific you are looking at in the question, try it again, because I want to make sure that I answer you.

QUESTION: For the last mile?

SOL TRUJILLO: No, the last mile is something that we do not think that way. If somebody wants to do something ridiculous, we will deal with ridiculous at the point in time of ridiculous.

QUESTION: Okay.

SOL TRUJILLO: Your first question?

QUESTION: The first question was, just looking at the PSTN decline, it doubled in terms of the rate of decline down to almost 4.5 per cent.

SOL TRUJILLO: Yes.

QUESTION: John mentioned that he had not seen any economic indicators in the results say that there had been a slow down. I am interested in whether you believe that the 4.4 per cent decline will continue, or what do you think drove that decline, and also, what are the key economic indicators you look at as a management team? Is it going to be a reduction in pre-paid recharges? Is it going to be people spending less or trading down on their line rental plans? What factors will you look at as a management team to identify any economic impacts?

SOL TRUJILLO: That is what I was saying - we are going to manage this year, and we are starting the year, basically on the same plan, the same way of doing business that we have the last few years - that is, adding value, doing the things that matter most to customers, and we will continue that. In terms of what happens second half versus first half, is that we continue to see the one thing - consumer behaviour is consumer behaviour. That means that if I am going to make more calls on my mobile, the conversion from fixed to mobile, I am going to continue to do, and that is not something we are going to change until we introduce some newer capabilities on the fixed line side. That is something, but that is another story for another day. The point is that at retail, we are still gaining access lines; we are still taking market share in terms of what we are doing, whether it be in Business, whether it be on the consumer side. All of that is still working. That has not changed, first half, second half, in a significant way. It is more about the calling patterns and the fixed to mobile continued migration that is consumer behaviour. If that continues, we will be looking at the kind of rates this year like we had in the second half.

In terms of economic indicators, we are going to continue to monitor right now how we think about our business. So far, it is pretty economy-downturn resistant in the sense that we have all seen the surveys - what are the three things you take with you in the morning when you leave your house? Your keys, your wallet and your mobile. When you think about fixed line and you think about the importance of broadband, you think about the importance of the services that we provide, it is part of your daily life; it is part of your kid's education if you have children. It is part of a lot of things that are more integral to people's daily lives than other variable costs that people have. So far, that will be part of the story. Perhaps I watch one movie less, but, actually, I think it will be even more so, because I won't go to the theatre and pay those kinds of ticket prices. I will order a BigPond movie and download it and sit at home with my family. That is the upside on what we are doing. But we will watch it closely. That is why we are being prudent again with our guidance.

JOHN STANHOPE: I will just add a bit of colour to your PSTN half-half question as well. When you get a chance to look through the results, you will see that the PSTN overall revenue decline is driven strongly by wholesale. There is now nearly 600,000 ULL lines out there. That has taken away some of the wholesale access revenues. You know well, and we all know well, that there is a competitive strategy going on here to take people off net to on net. Maybe that will slow down and that will impact the result, but when you have a look at our strong performance in retail PSTN versus wholesale PSTN and understand what has happened in the half that has just gone with respect to the wholesale part, you will be able to analyse the outcome a bit more.

To your other question about the half, we did give some guidance last year about what it is likely to be. Your assumption is correct that the first half will not be as strong in terms of EBITDA and EBIT growth as the second. That is mainly because there are a whole variety of factors like sale of businesses in the first half, second half, and so on.

QUESTION: Just to follow up on that wholesale issue, is that why we have seen Kate launch ADSL2 Plus as a wholesale service, because of the softness in the wholesale business?

SOL TRUJILLO: No. It is because we think that there is value to be captured out of the market. Kate is seeing some demand from customers that would like to have an alternative and a choice that is priced right for them and for us, and that is why we do things. You know, Tim, I think you have probably heard this at least 20 times from me: we value, compete. If we can add value and offer a service, whether it be a retail customer or a wholesale customer, we will. That is how we operate.

SOL TRUJILLO: All right, Melbourne.

QUESTION: Good morning, it is Christian Guerra here from Goldman Sachs J B Were. Sol, congratulations to you and John and your management team for what you have done over the last three years with the company. I just have three questions for you this morning. Firstly, on the capex, we have seen basically over the last one to two years that, through your huge investment in capital, you have driven a big competitive advantage for Telstra in the marketplace. I am just wondering if you could talk about the revenue opportunity over the next two to three years, given you have increased your capex to sales. Are you looking to increase your market share or revenue share, or do you, in fact, the pie is going to grow for the industry? Secondly, John, a question for you on interest. That was way below what I was looking for. I am just wondering if you could talk about your borrowing costs in the context of what is happening with global markets. Thirdly, just on Sensis, I know you typically start selling the other products six to 12 months before you recognise the revenue. I am just wondering what Yellow Pages print is looking like in terms of forward orders?

SOL TRUJILLO: In terms of the going forward, leveraging the competitive advantage that we have in the market, given the investments that we have made, I think that is a really important question that you have asked, because I said it last year: I think that what we are doing with our wireless Next G play is we are educating the whole market in Australia and around the world that there is a rising tide here, and it is an opportunity for everybody. We have ploughed the way, we have shown the way, we have done a lot of things here. Now people around the world are starting to understand, including our competitors locally. The only difference is that we do things based on value, so instead of adding what I would call empty calories, we take on significant high-value consumable products here in the sense that when we grow our revenues, to me, the most important thing - I have always said this and I said it when I was running Orange back in Europe - is that the services revenue share and margin share is really what any responsible business person that is shareholder focused should think about. So that is what we are doing. Our growth of 12-plus per cent in a market that is 100 per cent essentially penetrated is way beyond anything around the world. As I said earlier, it is about four times our nearest competitor. So our focus is, yes, raising the tide, which I think we have done, and then, secondly, taking a more disproportionate share of what is going to be happening in the market as we do that. You have seen that on the broadband side. Again, everybody has the opportunity to put DSLAMs in. Everybody has the opportunities to interconnect on equal terms, but we are taking disproportionate share. Why? Because we add more value for our customers. The good news is that it's not a regulator that makes the decision; it's the customer that makes the decision. That is where we always want to make sure that customers are the once that make those choices, not regulators. You make money, the ones that pay the bills are the customers. That's my answer to your first question.

Relative to Sensis and the print product, I would just say, again, as we have built or rebuilt the business here where it is value based, we are metricising about everything that we have in there, the sales leadership, the operating leadership, the relationship with customers, I would just say that the momentum will continue as we go forward.

JOHN STANHOPE: Your question about interest, you will see in my presentation that there is an appendix that tries to help with the finance costs outcome. Let me just quickly address it. The actual borrowing costs increased $185 million. So, in other words, the additional interest, if you like, was $185 million to $1.2 billion. That is what borrowing costs cost us last year in absolute and the growth. It is because we had higher average debt, and there were higher interest rates. You can pick it up from the accounts.

Let me just tell you, as at 30 June last year, so '07, the cost of debt was 7.2 per cent, and as at 30 June '08, the cost of debt was 7.7 per cent. So cost of debt at those two points in time has gone up 50 basis points. But our average debt, so average cost to debt, has gone from 7 per cent to 7.3 per cent. What that tells you is that throughout the year, as we increased debt, we got very good terms.

SOL TRUJILLO: Next in Melbourne. Maybe there is not a next in Melbourne. We will go back to Sydney.

QUESTION: Hi, Sol, hi, John, it is Richard Eary from UBS. Three questions actually. Just looking at the revenue guidance for this year, 3 to 4 per cent, you did 3 per cent in the second half. I am just trying to get a gauge in terms of the guidance is now the top end of obviously what you delivered in the second half. Is there anything there that we should expect in terms of traction within the corporate space given the demise of Commander or basically AAPT pulling out of the big market? That would be the first question. The second question is just on capex. There have obviously been a lot of questions in terms of the long-term numbers. The 14 per cent that you put up there for 2010, if we exclude the $200 million that you said was related to transformation, should we now be assuming 13 per cent is a long-term, comfortable number that you are happy with for the business? Lastly, just in terms of China, you obviously talked up SouFun today. There has been comments in terms of an IPO of the asset. There has also been talk historically about what you are going to do with CSL. I appreciate markets are probably not what they are today, but if you can give us a bit more clarity about what you want to do with those assets longer term.

SOL TRUJILLO: Let's start first with the revenue. Again, our guidance is always reflective of what we think the opportunities are and also being mindful of what the challenges are. Clearly, we are entering an economic period that may be a challenge.

We think that we can withstand the headwinds that are there, but, at the same time, we are not going to be overly optimistic about what might be there as an opportunity. If it is there as we progress through the year, we will take it. If it is not, you have got our guidance.

In terms of the numbers themselves, you have to be mindful of last year, first half, on the revenue growth side, we had very strong revenue growth, so we are cycling on a very strong delta from last year. That is the same for the second half. So you will see the guidance that we have, which is upped guidance, but we are going to be prudent as we look at it.

JOHN STANHOPE: The next question was about the capex. We are really not giving guidance beyond fiscal year 2010, but just to say that there is a variability in capex due to customer demand, and we have not given any guidance for revenue beyond 2009-10 either, so I am not going to comment on whether your 13 per cent is right or not. You can see what has happened. The top line is working harder, and we are supporting the growth with the capex.

QUESTION: Just on that, John, if you go back before, the original guidance was 10 per cent to 12 per cent, then it got lifted to 12 per cent, now it has been lifted to 14 per cent. Clearly, there is an anticipation that you are putting more capex to drive the top line but it was mentioned earlier about the percentage rate. The percentage rate should not necessarily change unless there are things in there that we are not aware of.

JOHN STANHOPE: No, but you have to understand the mix change. One of the things that I was pointing out very clearly here is the mix change. You have to build up scale. We all know the margins in PSTN. Obviously the margin is lower in broadband but improving and increasing. So we are supporting the broadband growth; we are supporting the mobile growth; and we are expecting scale economics in terms of those products to get the margins back up. So you go through this period of supporting slightly lower margin products. Having said that, we still believe we will get our 46 per cent to 48 per cent EBITDA margin. That will primarily come from the cost out from all the things related to the transformation that we have mentioned before.

QUESTION: But is it not fair to say that the actual growth that is coming through is less capital intensive than the traditional PSTN business? So, as your mix changes - - -

JOHN STANHOPE: But we are not spending money on the PSTN. We are spending money on IT platforms that support content and applications that are in broadband. DSLAMs cost you money. So we are spending money on those sort of things. By the way - this is commonsense - as you start to introduce more applications and speed, guess what, you use more bandwidth and you have to supply more transmission to take the applications and the content and the services across the backhaul. A lot of people forget that you have to build backhaul to provide all those services. That is why we have a Sydney to Hawaii. That is why we have had to do those sort of things. As you know, also, 70 per cent of the internet traffic goes across to the US from Australia.

SOL TRUJILLO: So I would say that the big difference from three years ago when we were setting targets at 10 per cent to 12 per cent and today, no. 1 is what I said earlier: our growth rates are much higher than what we had in the plan. But, no. 2, and this is a fundamental belief I have - that is, in today's world, much as John said, the issues of not just building infrastructure for the service, whether it be a DSLAM or whether it be a wireless base station, but now you have the contingent investments associate with things like backhaul and other services that come with it that are part of a new dimension of a high speed world versus a lower speed world. The good news is we have architected for that, and we will continue to grow as we grow our broadband in strong double digit, as we grow our mobiles services revenue in double digits, and that is a good thing from shareholder and a capital management kind of perspective.

What I would say is if you are in low single digits or negative, there is no way you should be spending that kind of capital and have that kind of capex to sales kind of ratio. So, if you want to know what my parameters are as I look at the business, a capex of probably that 12 per cent to 14 per cent is good if you have growth that is double digits. It is bad if you have single digits or negative growth. You should not be spending the money, or you are wasting it somehow because you are not pricing right, you are not doing whatever it is to make it worthwhile for an investor.

What we are doing is we are raising returns; we are raising margins, so as we are managing our capital, it is all with that end point in mind.

QUESTION: The third question on China?

SOL TRUJILLO: In terms of China, I have a view there that says there is a lot of opportunity in the ways that we are going there consistent with the business model that we have in Sensis. You will not see us get into businesses in the online space that are just easy to enter and anybody can do it and we can go buy and asset that is already there. These are about strategic, competitive advantaged-based businesses. Look at SouFun - 100 cities, sales force out there just like Yellow Pages kinds of people that go and deal with advertisers directly, build content, digitise the content, put it on a platform and actually pay. These are real revenues, real earnings, positive cash flow. We are going to stay focused on that. We will look for other opportunities, and if we can find other ones, we will look at them seriously.

In terms of CSL, I have said all along, CSL, I think, is a strategic asset. We will continue to monitor it and see how we can extend the value of it. Again, you will see over the next year or two whether we can or we cannot. If we cannot, then we will have a different kind of conversation, but, right now, I think it is a strategic asset.

All right, let's go back to Melbourne. Okay, no questions in Melbourne, so we'll continue here in Sydney.

QUESTION: Andrew Levy, Macquarie. Just a question on the billing systems. I just wanted to talk from the context of there are very short delays, three months or so to the cutover at the front end. Just at the back end, have the timelines moved and when are the timelines for closing down some of the larger legacy billing and CRN systems? Also, can you reaffirm - I am not sure whether it is in the pack - the targets you had for network and systems reduction and if you are still on track to achieve those?

SOL TRUJILLO: Yes, the plan that we have had all along and that we have said all along is second half of '09 fiscal year and the 2010 year is kind of the big year when we start retiring systems and 2011 and 2012. Those will be the years. That has not changed. The issue in every migration, if any of you have ever been involved with a migration and you have seen companies that do it well, which are very few, and companies that do not do it well, which are a lot, it is that you have to get the code right. That is where we are at. I am sitting here today very happy about where we are at. Yes, we might be off a month or two, but, in terms of our core numbers, EBITDA margins, which is reflective of opex, and our fresh cash, which is reflective of capital and other issues there, we are not changing anything.

QUESTION: Just the systems and network closure targets for fiscal year 2010, those original numbers, are you still standing by those?

SOL TRUJILLO: Yes, they are going to be close. Whether we are off by 5, 10 or 20 here or there, I do not know whether that is going to be the case. As you remember, some of us were brand new to the company, and in October we did an inventory with people who had been here 20 or 30 years in Telstra and we identified that we had 1250 systems, and as we got into it, about six, nine, 12 months later, we found out we had 1500 systems. So there is a lot of complexity to this, so the variability of plus or minus 10 or 20 could be part of the story. But the punchline is the essence of the delivery, the essence of the margins, the essence of the free cash flow, which is what a shareholder cares about, will be hit.

QUESTION: Sol, Tim Smeallie, Citi. Obviously the Foxtel distributions this year were a nice earnings kicker. I guess the state has changed around those distributions about three times from November last year. Could you give some colour in terms of why they were suspended and then also what would be the catalyst to see those capital distributions reinstated?

SOL TRUJILLO: Let me start first, Tim, with the whole notion of Foxtel. I have had this conversation with John and I have had the conversation with our whole team. Foxtel is part of our company. It is part of our ongoing business, and everybody in this room should understand that. When we think about Foxtel now, we should think about it as a revenue stream, a cash stream, a part of our company that we also took the hits on for a number of years in terms of the capex and the negative cash flows that occurred for several years. As a policy, we, the News Corporation folks and the Packer folks, we have all agreed on a distribution dividend and cash distribution policy. That will be implemented.

During the past year there was a time, let's say a fact, given what the financial markets are in terms of how we go about leveraging the balance sheet of that business to enable the payout. We are not going to do stupid things just because we want to get something on a certain date. I think John and his team along with the other members or partners we have were very mindful of that. John, do you want to add to that?

JOHN STANHOPE: No, you have covered it well. Nothing has changed in Foxtel's policy, and it just about timing, given the financial markets.

QUESTION: So, can we assume, then, that if we saw a reduction in rates in the Aussie market and it was more attractive to take on the funding, because it was not aggressive - it was only three times net debt to EBITDA for the business. The business is delivering great numbers. We have seen today it is on a great trajectory. Does a reduction in rates provide scope that that capital distribution program will be put back in place?

JOHN STANHOPE: That is what I said, in a different way.

QUESTION: Okay, that's great. Thank you.

SOL TRUJILLO: Any questions in Melbourne? Looks like no questions in Melbourne. I do not see anybody else lined up here, so I want to thank all of you for coming today. We will see you next time. Thank you.

[QUESTION & ANSWER SESSION CONCLUDED]