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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2009 Financial Results – Analyst Briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2009 Financial Results Analyst briefing, for release to the market.

Yours sincerely

Carmel Mulhern
Company Secretary

TELSTRA

FULL YEAR 2009 FINANCIAL RESULTS

ANALYST BRIEFING

THURSDAY, 13 AUGUST 2009

BEN SPINCER: Good morning everyone, my name is Ben Spincer, Director of Investor Relations. I would like to welcome you to Telstra's results for the full year 2009.

In a moment I will hand over to our Chief Executive and CFO to run through some of the numbers, and then, obviously, we will have an opportunity to take some questions. We have people here in Sydney, we have people on the webcast and people on a Conferlink. We will take questions both from the floor here and also from the phone, after David and John have spoken to you.

So, without further ado, I will hand over to Telstra's Chief Executive Officer, Mr David Thodey. Thank you.

DAVID THODEY: Thanks, Ben. Well, good morning. It is my great pleasure to be here to deliver the Telstra 2009 results. Let me start by saying that we have delivered very strong results that are in line with guidance and, despite the tough conditions, we will be maintaining our dividend, which we think is a good result.

We have achieved everything we committed to do in 2009, and our business remains focused on our target of $6bn of free cash flow for 2010.

We remain optimistic about our business. The demand for our products and services remains very strong right across the market, despite the downturn. So, despite these tough trading conditions, we are growing top line and bottom line, and, as John keeps reminding me, we have a very strong balance sheet, which we are delighted about.

I think that the strategy we set four years ago has really delivered tremendous results, but we are entering into a new stage. We really have to drive the benefits from the incredible investment we made in transformation, and that is both the IT transformation and also the network transformation. I want to stress that, because driving operational benefits and real value from those investments is critically important and it has to be across both areas.

Telstra's transformation has been long. It is complex, but it has been a very, very necessary journey and I think, as I reflect on the business that I have been in now for 10 years, it was a very necessary transformation that we had to go through, because it has really set us up, as we go forward now, I believe, for the next 10 years.

But a critical part of this, and something I have talked about quite a bit, is that we have to focus on customer service. Customer service is not just a catch-cry. It is about the fundamentals of what it is to run a good business. Good customer service means that customers don't churn. Good customer service means that we are able to drive increased ARPUs and drive increased penetration and share. So, as we move forward, customer service is going to be something that we have to focus on to drive shareholder value.

The economy is slower, and we do have regulatory changes and also the NBN that are on the horizon. As we have looked at that, we have had to implement some specific strategies to make sure that we are ready to compete aggressively in the market.

Later on I am going to discuss the national broadband network, but I want to start by saying that we share the vision that the government has for a fibre-to-the-premises solution, and we share the view of the government that we have to engage. They are willing to engage and so are we, but we are engaging based on one premise, and that is about driving shareholder value, protecting shareholder value. It is critically important for us as we go forward.

What I thought I would do today is to discuss four things. Firstly, I want to go through our results and give you a bit of perspective on that. John will give you all of the details. I do want to talk a bit about how we see the market and our demand out there in terms of responding to the market conditions. Then I want to look at what our priorities will be for the next two to three years, and then I will talk about our guidance for the next 12 months. So, let's now turn to our results for the last 12 months.

As I said, we have delivered strong results, and it has been in difficult times. We believe we have a solid foundation as we move forward into this year. Sales revenue was up 2.9 per cent; total revenue up 2.7 per cent; and if you normalise for the KAZ sale, it was a 3 per cent growth, which was right on guidance. Of course, if you look at the normalisation of KAZ, it does not impact either the EBITDA growth or the EBIT growth.

Expense growth was just 0.6 per cent, and I have to say that expenses are being managed very, very tightly; and of course labour costs have been declining, which has been a key focus for us as we have run the business.

Our declared final dividend of 14 cents, coupled with the paid interim dividend of 14 cents, is now substantially covered by our free cash flow, and our free cash flow was up another 13 per cent to $4.4bn. Profit after tax was up by 10.3 per cent, and our margins, reported on a full-year basis, were 43.2 per cent.

As I said, we believe these are strong results in a tough economy, and we have delivered on what we committed, which was our guidance.

John is going to take you through more details on that later on. What I want to do now is to give you some colour across how the customer segments performed, and also the product portfolio, so let's have a look at that.

At a retail level our growth was 3.4 per cent, and on our international portfolio it was 14 per cent. This more than offset the declines in our wholesale business. Let me go through, very briefly, just a few highlights of each of the customer segments.

Firstly, the Consumer group, led by David Moffatt, had a strong year. Their second half was stronger than their first, but I want to stress that David and the team have been working diligently as they have rolled out the new CRM systems. All the training, the education and the process changes have been an enormous focus of the whole team as they have really driven out the transformation systems.

I cannot stress how important this is, because you have to do that while continuing to add value in the market, drive out the differentiation and put out the packaged offerings. David and the team have done a tremendous job in this, and to see slight growth in the second half was very pleasing.

Also we have been driving out all our program around the T[life] stores. This is about changing the retail experience. T[life] stores have a tremendous feeling when you walk in. They have a good feel about them. We are attracting customers in there, and so this has been a key part of building our distribution capability. T[life] is a critical part of our retail presence in the market. So the Consumer group has a strong result at 3.1 per cent, and I am confident that, as the team are consolidating around the new core systems, we are going to see improvement as we move forward.

Now to the small business market and Deena Shiff. 4.7 per cent growth. This is, I think, a tremendous result. As you know, small business is the heart of Australia, and they have done it tough over the last 12 months. There has really been a lot of pain out there, and Deena and the team have really responded well.

Remember, one of the big differences for us in the small business market is our tremendous coverage in the market. The team has enormous reach, right across Australia. Working with TCW and Brett Riley, this has been a tremendous partnership and something we have to continue.

We are seeing some changes in the small business market. They are taking up more wireless products, wireless data especially, up nearly 31 per cent; and we are starting to see small businesses adopt IP more fully than we have in the past. IP access was up 44 per cent year on year. So you are starting to see some changed dynamics as small businesses are starting to do things more online and starting to really have a greater need for doing things while they are on the move. So it is quite an exciting time for the small business group, but I want it to be considered that small business has done it tough.

We are very committed to this market. We are committed to building long-term relationships with small business right across Australia, because it really is the heartland of Australia and what we do. So a strong result: not as strong as the previous year, but, we think, a very good result.

The Enterprise & Government group, led by Nerida Caesar - who, by the way, I should quickly say, ran the Wholesale group just for a month and, before that, was running the National Sales Group - had 2.9 per cent, but when you normalise for the KAZ sale, the overall results were 5 per cent year on year. In the enterprise sector, that is a very, very strong result. Again, we are seeing quite a bit of change in that market. The adoption of wireless products is very strong, especially wireless data.

One of the interesting statistics in the enterprise market is that 44 per cent of our mobiles revenue is actually coming from wireless data. I think that is probably a world record, but you can see the changing dynamics in the enterprise as they are doing more and more in the face of their customers where we have more people out there doing things on the move, and our Next G network really does hit a very nice sweet spot.

The other big thing is around IP access growth. That was up 23 per cent and that follows the trends that we had in the prior year, up to $582m. We are seeing a very strong adoption of IP. Now, remember, IP is like the heart of a business, because that is what connects every branch, every location. It is about how they transact their business. So this is exciting. Of course, we are going to see voice IP, further applications and cloud computing in this market - of course, I am very familiar with that market.

We are encouraged by that, and of course we had strong sales results in that market, as you see - strong wins with CBA and the Australian Catholic Network, the Catholic Church. So we are very pleased. We had sales of $1.1bn, that is net incremental sales, for last year. So a very strong result. So right across that retail segment we had 3.4 per cent growth, which is very good.

Sensis. I have to say it is a world-class performance: 5.8 per cent growth. As you know, we have talked a lot about this business, and when you look at the directories business around the world, there is no directories business like it. Bruce Akhurst and the team have really produced a tremendous result.

Print directories grew in a weakening market with an 8.2 per cent increase in White Pages and Yellow Print revenue growth. That is outstanding. White and Yellow Online sites have experienced strong growth, with White Pages up 107 per cent and Yellow Online up 15 per cent. This business remains core to us. It is a very strong business. Bruce and that team continue to move that business forward, managing the complexities around print and classifieds, and they are doing it very, very well. It is a very strong result.

Paul Geason, now running the Wholesale group, has come in after a year of negative growth last year, which was primarily driven by the continuing ULL build, which you would have expected, and also DSL revenue declines. This was expected, we had planned for it, and we are delighted to have kicked off the year with a very strong win with AAPT, which has been a very longstanding customer, and I think this has positioned us well as we look forward.

Let me now turn to talk about International, because that is an important part of the portfolio. While 91 per cent of our sales revenue is domestic, international operations continue to grow, and it is very important for us as we move forward.

Let me make a few quick comments: SouFun is growing at 29 per cent in local currency. The other China assets - PCPPop, Autohome, Sharp Point and China M - all are meeting expectations. I was up there just recently and I had a good review with the team up there. We remain very encouraged about those investments.

China M and Sharp Point provided combined revenue of about $50m, but the interesting point was EBIT of 32 per cent for the first five months; a very strong result.

TelstraClear in New Zealand delivered, in local currency, 2.3 per cent growth, so we are pleased about how that is performing. You will see in the accounts there is some normalisation as you take out trans-Tasman, but in local currency it is doing very well and competing strongly.

Of course in Hong Kong, we have CSL New World. It is a tough market in Hong Kong, but we have invested in the Next G network. It is a world-class network. It is probably the fastest wireless IP network in Asia at the moment, and we believe that the team are well placed as we move forward into this year.

So you can see, across the segments, strong results. We are competing vigorously and we are also focused on serving our customers.

Let's now turn to the product portfolio, and let me just give you a few highlights. John will pick up a little bit more of this later on, but I do want to give you a little bit of colour here.

Firstly, mobile services revenue growth, 10 per cent, with wireless data up 31 per cent to $2bn. This is a very strong result. A very strong result. Notably, 30 per cent of our domestic sales revenue is now wireless. Mobile retail SIOs are up 9 per cent; 3G SIOs are up 45 per cent.

I want to stress that the movement of our base across to the Next G network is very important. Wireless broadband SIOs are now over 1 million. We had 99 per cent growth year to year, and mobile ARPU blended was up 4.8 per cent.

Now, a very important inflection point happened this year. I want to talk a little bit about that, because it is important. Our mobiles revenue now is bigger than our PSTN revenues. That is the first time in a year that we have ever had that happen. So we are now $500m of mobiles revenue greater than our PSTN revenue. So we are very pleased about our mobiles revenue and we think that it is a good base as we go forward.

In terms of IP and data access, again, this portfolio is very important for us as we move forward. We have seen 8.1 per cent growth, and that is driven off our growth last year, so we think this IP platform is going to be a key growth platform as we move forward.

What is interesting as you look at that, is that IP access growth was 25 per cent. So as you are driving out more access SIOs then you can drive out your usage on top of that. So another great year for the IP access portfolio, IP portfolio, and of course it is about managing the traditional legacy product as we migrate to the new IP platform.

PSTN decline of 4.9 per cent was sort of in line with what we expected. What is important to note here is that the retail revenue decline was 2.5 per cent, so coming back to the wholesale decline, that is where we have seen this migration across to LLU and the DSL decline as well.

Fixed broadband had a growth of 16 per cent, which was driven by primarily ARPU increases; 2.3 million retail broadband SIOs. ARPU increased by 6.5 per cent up to $57.70 as more customers are taking up premium, ADSL2+ and Cable Extreme plans. So what we are seeing in that broadband portfolio is people migrating to the faster speeds, and we are seeing the ARPU increase, which we think is a good outcome. But I do want to stress that we are going to manage this share and revenue growth very, very carefully, in terms of profitability as well.

I do want to mention Mick Rocca and the team who are driving our Managed Network Services. Besides doing all of the hard lifting out there in the field, Mick and the team are doing very well. One key part of the portfolio is this Managed Network Services portfolio which Michael has taken responsibility for. We have seen 5.3 per cent growth. This portfolio is the managed services. It is around Managed WAN, Managed Radio, IP Telephony and all of the new set of managed services.

This, we believe, will be very important for us as we go forward, both in the enterprise market and also in the business market, so we see this as a platform for growth as we move forward.

Now to Media and Content: 9.8 per cent growth. As I mentioned, this was underpinned by the Sensis growth, which had strong growth, but also our Media business is doing very well. It has continued to meet expectations. It generated almost $100m of domestic revenue last year.

Now, this 42 per cent increase across BigPond and our Next G customers is an important element to focus in on, because we are seeing our customers wanting to download more movies, more music, more games, more news and more sports. So this is very important, because we are starting to see a change as customers are really wanting to engage with different types of content and this is a focus we have to have as we move forward.

Finally there is Foxtel, which continues to deliver very strong results. They have got great momentum and we are delighted with their strong results - double digit revenue and EBITDA; subscribers up and churn down. Foxtel is a very strong business. Our content continues to provide us with a great platform as we move forward.

Those are the key highlights of 2009. I want to stress this is strong result and I want to recognise the executive team and all the Telstra staff. They have done exceptionally well in tough conditions. We started the year not expecting the global downturn. We have managed through that. We have adapted to the situation and to come out with a year at 3 per cent growth normalised for KAZ is very encouraging, plus free cash flow growth of 14 per cent, plus the profit growth. We are very encouraged and I do want to recognise the team today.

Let's talk about demand in the market because that is important. I want to touch on a few highlights because sometimes you forget; as you look at what the fundamentals of the business are like, you have to look at what the market is doing. There are a few things to highlight. Firstly, the 24 million services we have right across all our platforms; they grew 2 per cent year to year. On a base of 24 million, that is encouraging. Broadband customers reached 5 million for the first time and, as I said, wireless broadband customers are up 99 per cent to 1 million.

We have had tremendous growth on this IP platform. Remember as you build the platform, you have to build and attract all the access points from your customers, so you have to be out there selling these products. IP MAN and IP WAN are up 31 per cent and 21 per cent respectively. When you put across that managed network services, that is a very strong result and we think it positions us very well competitively, but the demand for those products is strong.

Mobile data revenue, as I mentioned, is 31 per cent year on year growth. Internet advertising revenues across Australia and China for the first time hit half a billion dollars. Traffic on our mobile network is doubling every 19 months. Let me say that again the traffic on our mobile network is doubling every 19 months - 11 billion mobile minutes and 8 billion calls on our fixed line network. These are strong results.

So when you look across that, the demand, the need for communications products and services is strong. It has been impacted by the economy, but we think the underlying demand is strong. From a market share perspective, we estimate that we have held share across fixed voice, revenues and SIOs. So we think we have held share there. However we think we have had a slight loss in our mobile

SIOs and revenues. I want to pause here for a moment because this is very important.

We are balancing share and revenue with profitability. We look at this every month. It is a trade you are always doing, and we are going to optimise this for the best for our shareholders. You can spend a lot of money attracting a lot of customers and get top line growth. To drive revenue growth and profit growth is what we are focused on. The number one objective with customer service is, for this company, profitable revenue growth, not growth at any cost, and I want to stress that because this is a key focus for us as we move forward. So as you look at that, strong demand.

Let me just turn now to the tremendous cornerstone of our strategy. These two networks, Next G and Next IP. You've heard the rhetoric around Next G and Next IP and sometimes I don't think it is really reflected of the incredible asset that we have. These two networks, integrated networks, are at the foundation of what the core of this company is about.

When you look at the numbers now, there has been a significant change: mobile, fixed retail, IP and data access now contribute 44 per cent or $10.2bn of our domestic sales revenue. That is significant. As I also said, we have seen strong growth in wireless broadband and broadband SIOs are now 5 million. I can remember three four years ago, that was a dream. So we have had significant change. But we are seeing this change in our product portfolio and we think within the next three to five years, that coming off these platforms about 65 per cent of our domestic revenues will be off these platforms. This is very important to understand, so the aggregation across mobiles, fixed retail broadband, IP and data access, that reflects the very strong demand for these products and services and has been the catalyst for the revenue mix change.

So two world class networks provide the foundation for our growth as we move forward, and also we are in a unique position. The integration of wireless and fixed two next generation networks really does position us in a pole position in this market. More and more we are seeing our customers saying, "I don't care if I'm connected wirelessly or from a fixed environment. I want the same experience." This is very important in terms of our strategic position.

Then when you add in the content and what we are doing in terms of media, I think we have a very strong platform to move forward.

To summarise that section: demand for our core products remains strong. We are encouraged by that and we are going to continue to manage the balance between share and profitability as we move forward.

I want to talk about the priorities as we move forward. As I introduce this, I know the media are saying, "Hey, David, you have been in the job 90 days. What's your strategy going forward?" Before I get into the priorities, I want to signal we have had a complete review of our strategy, a refresh of our strategy underway for about two and a half months. We have been going through from the basics, looking at what we need to do going forward very importantly working with the management team and with the board. We are going to share the results of that strategy review/refresh in October at the investor day.

What I want to talk to you about today is the priorities as we see them going forward and they fall into four. Number one is customer service. I am going to talk a lot about this today because it is so important for this company. We are committed to delivering a strong differentiated customer service. I'll come back and talk a little about each of these in a moment. Second is operational improvements. I have already said it is one thing to do a transformation; it is another thing to drive the value from a transformation. You put in new IT systems. It does not mean you immediately get benefits. It is hard work, very hard work, because you have to get down and redesign processes, you have to train people in new systems, and we are absolutely committed to doing that.

While I would never say to John that the hard work is yet to come because the IT guys have done a tremendous job, in many ways the work it still ahead of us. The transformation work is now moving into business as usual because the IT systems are there. We now need to drive the value from them right across the business. That will be our focus, to really drive value from this new IT architect.

With regard to our strategy product differentiation, the integrated products and innovation remain at the heart of what we do. This is very important and our aspiration, our objective to be a world-class telecommunications company has not changed - not just the best in Australia, but the best around the world. If we can truly leverage off this wonderful fixed infrastructure, the mobiles infrastructure and the wonderful assets we have in Sensis, we are in an incredible position, we have incredible scale and real differentiation. So if we can take that and really meet customers needs, we believe that we can move this business to a whole new dimension.

But it is also about pricing for value. While we want to be the best, we also want to be able to justify the premium we charge in the market, not just because of the Telstra brand, but because it is a differentiated experience, because we can actually articulate the value that we bring. So that is very important as we move forward.

Then, of course, we have regulation and NBN. This is a critical part of what I am doing, this is all about getting regulatory certainty for this business as we move forward and protecting shareholder value. We continue to talk to the government and we are trying to look to see how we can help them realise their vision for fibre to the home, but as I said, our focus is on our shareholders and our fiduciary responsibility.

If we can do these four things, we think we can really drive good growth as we move forward and also strong shareholder value.

Let's just move on. I want to talk a little to each one of these because I think it is important that we spend a bit of time on them. Let's talk about customer service firstly. As I said this is at the heart of what we do. Many people might say, "Hey, this is a personal mission of yours David." Well, yes, it is, but I have to stress this is not about passion or emotion. This is about good business. This is about good business because if you deliver good service, customers stay with you; in fact they are very forgiving. We have already taken a number of steps around customer service, and I am spending a lot of time on this myself, both talking to customers, responding to customers and talking to people around the company because it touches every part of our company.

These things are not going to change overnight. Our company is too big to see instantaneous change, but we have started a journey and I can't stress how important that is. This is not theory. I've been around too long and our management team has been around too long. This is about tough work. It is about every time a customer contacts Telstra, they have a good experience. For investors people sometimes say, "Well, what are your results?" But if you don't get customer service right, your results go the wrong way.

So we have taken a number of key actions and I want to touch on them. We have already put millions of dollars into training, specifically in terms of call centres and retail shops. This has been an enormous project. Don't underestimate that. You have to train people to deliver good customer service and the new tools so you actually deliver a differentiated experience. So now we can talk to a customer and have all their products and services in front of the consultant as they are talking to the customer.

Also we have taken some bold moves. Customers have problems and the one thing when you have problem is you want someone to respond quickly. We have set new targets across the business, for every complaint that comes in, our target is to acknowledge it within 24 hours and respond in some way with a solution or an agreed action plan within five working days. This is important because it starts to change the culture and the dynamics of the country - very important.

Also we have set a target for all Telstra employees and a bonus around customer satisfaction. Let me talk about this for a moment because this includes all our call centre staff, every technician, every engineer right across the business. What this is about is measuring them, measuring us on the voice of the customer. This is not an internal measure. We will be doing surveys to determine what our customers say about our service and only then will we recognise that performance - very important.

We also made a few organisational changes. We have a new centre for customer service and satisfaction and we have also put in place a Customer Satisfaction Council which I chair. These are important organisational changes just for the change.

Also we have to have some quick wins because you have to get momentum. We have already looked at this but one of the critical points for many of our customers is when you move residence. So if you are moving with your PSTN service and your broadband service often you've had to talk to different parts of the business to try to get that coordinated. Immediately we have looked at that said, "Okay, how can we get one person out there to get that done, get you on line and talking as soon as possible?" David and the team, and with Mick Rocca, have done a tremendous job. This is all about speed, about responses, about really driving out for our customers a differentiated experience.

These may be small steps, but I want to stress they are important steps in terms of the long-term program. We have a long way to go but we are very committed to getting to the end of this journey and we will talk more about that because this is important. We will have to invest in this to get the results that we need.

Let us now turn to operational improvements. I have already talked about that. We have done a tremendous amount of the work in the IT area and we still have some legacy products to exit as we go forward. We have to keep driving this out and we are sort of moving into that stage where from having talked about transformation, we are moving into a "business as usual" stage. I don't want in any way to imply we don't have a lot of work to do because the team is still working very, very hard; but now it is about driving the benefits from this.

I want to give you some statistics, because up here on the chart you can see this progression across the last few years. As of last weekend we have 9.2 million customers across on the new platform. We are getting better and better at doing it. That is a tremendous result. The guys worked all weekend and very encouraging. Also 17.8 million of our services have now moved across from the old platform to the new, so we are starting to see the new benefits. When you are still working with two platforms, it makes it very difficult and we have to get that work finished as we move forward. So over 70 per cent of the services were migrated and customers. As I said we still have a bit more to do but we will work through that. We have to get the consumer migration finished and David and John are focused on that. We do need to start to move into this area now. For those who know the technical side, this is very important, this is about enabling Mick and the team to manage the networks better. That allows you to do remote diagnostics better, it is about reducing the number of truck rolls. That is very important as you put in that management layer across the business and of course extending the ability of the platform, the CC+B platform is critical right across the business, so Deena and Nerida are looking at those as we move forward.

Also John keeps reminding me we have to turn off the old legacy systems. He has gone a great job of doing it. That is where you start to drive some productivity improvement reducing really sunk capital, get rid of it, move forward, and John and the guys are doing a good job at that. But I can't stress enough that this is not easy stuff. I have been around too long and I have been involved in too many IT and network transformations. There is nothing easy in here, easy to talk about but harder to do. I have to say I do not know a better IT transformation. I have looked at banks over the years, I have looked at big retailers who have come out with big statements around IT transformation. John will talk about this later on, but we are within $200m of what we estimated in terms of the overall transformation program. That is very good and we now have that platform out there. So I do want to give credit to the team.

We have more work to do - we do and we will get that done. It is about setting this platform for the future. If you can get this right, it gives you the ability to be fast to the market and really drive out the changes and deliver the benefits that we have talked about - so that is very important.

Let me talk about the third one quickly because this has been at the heart of what we have done. This has been about the engineering guys and the product guys really building differentiated yet integrated products that really give true innovation. One of the great challenges that we have is providing a unique experience across fixed and wireless. This is a seamless experience. This is like the strategic holy grail and we are making progress, tremendous progress in this area because this drives true differentiation and integration. You can see on the chart there the common interface across all these platforms allowing people to have ease of use. Sol did talk about one click, one touch, but this is about simplicity; it is about making the experience stronger. When you have that foundation, the integrated platform of Next G and Next IP, plus putting across this content and a great user interface you have a tremendous differentiation. Whether you are at home on the move, you're in the office, no matter where you are, if you are overseas, you will have a common experience, common interface which drives a true end-to-end experience.

Critical to this is our relationship with Cisco and Microsoft and you have already seen some announcements in this area. We think those relationships will be very important as we go forward but I have to stress: our objective is to keep customers connected - that is what we are trying to do - and to drive usage. If you have people connected, then they drive usage, they use content. What's the outcome of that? Lower churn, more usage and satisfied customers and shareholders. That is what it actually gets back to. Over the next six months you will see some exciting announcements from us. We are very enthusiastic about this product differentiation. That is a very important part of our priorities as we move forward.

Let me turn to the fourth point, which is NBN and the regulatory environment. As many of you know, a couple of months ago we made a very important decision and that was to get back to the table. We wanted to talk about the issues. We have a firm belief if you're not at the table well, you can't talk about the issues. So we are engaging constructively with government at the moment. We will work through this. It will be methodical and it will be with integrity and absolute transparency because we have to drive a good outcome for our shareholders, also our customers, also the people of Australia, as we strive to meet their needs, and look at what are the government's objectives, we will get to an outcome.

I want to be clear. The implementation study has only just been kicked off. It probably will not be completed for six to nine months, so it is very hard to get full visibility of all the issues. It is very hard to get definitive statements, but it will change. It will change by the week, by the month and we will be in continued dialogue with the government to see how we can get to an outcome that is in the best interests of all parties.

But the final determiner for me, for the Board, for the management team is about protecting shareholder value. We have no other objective. Customer service is there but it is all about protecting shareholder value. I cannot stress that enough. That is the way we have discussed it with the government. That is the way we talk about it and the way we will move forward.

Let me talk to the regulatory environment. At the same time as the NBN announcement, the Commonwealth also issued a discussion paper that many of you would have read about the possible futures around regulation of our industry and specifically of Telstra. The government received many submissions about the options. It has canvassed many options and is considering what options it will take. It has been indicated already that the outcomes of this review, once they are determined, will result in legislation and we believe that legislation will be introduced before the end of this year.

Our submission focused on two key things, one was around transparency and the other was around equivalence. That is what we are after because, more than anything else, this company needs regulatory certainty. That is what will gives us the environment in which we can move forward with certainty. You know the extent of these regulatory changes and I cannot really comment further because we do not know what they will be. John will go through some of the scenarios and talk a bit more about that, but I stress we remain actively engaged with the government in talking through the options.

To summarise we believe the four priorities we have are in the best interests of shareholder as we move forward; namely, providing customer service, driving operational improvement, product differentiation, and also addressing NBN and the regulatory environment.

Let me turn to 2010 guidance. We have spent a lot of time discussing guidance. It is a tough economy and I think you would have seen from many announcements already that it is very difficult to give you certainty about the future, but we felt it was important to try to give you some sense of what we see the trajectory is like as we move forward. I want to start by confirming that we will continue to grow top line and our bottom line and we are focused on our target of $6bn of free cash flow. We have looked at the challenges in the market. We have already spent a large amount of time looking at how we can best respond to these market conditions. We have looked at product differentiation, how we can drive out real difference in terms of our distribution strategy, looking at services, technology, inflection points and, of course, managing costs in a mature and careful way.

We are very mindful of our outlook and it is really impacted by four things. John and I will talk about this, but it is very important that you get these parameters. The economy is likely to continue in a slowish environment. We may see some growth later in the year but as we look forward, we don't see significant change. Of course, unemployment is the thing that probably hits us more than anything else. As unemployment flows through, we see that in calling patterns.

We have experienced some price-driven competition. We are very considered in our response to that. A lot of people talk about that, but we are about profitable revenue growth so we are very considered about not going after top-line growth at any expense. Also we have seen some delay, and we have talked about that before, in terms of the benefits flowing from the IT transformation. We think that we are behind and we will not see as much as we had expected in 2010. We also we have to get this customer experience right - so we have to invest.

Those are the four parameters that we have and we have looked at our guidance. I am very confident about the future. I am confident about our growth and I am confident about our bottom-line results. So we will continue momentum as we move into 2010. We managed costs very well in the second half of last year and we will continue to do that. We will be considered about what we spend our money on.

We are absolutely committed to the target of $6bn of free cash flow; however it has a slightly different revenue mix than what we had anticipated both in margin and in capex. These are all changing therefore we have given you some change in our guidance. This guidance excludes the impacts of any unforeseen changes from the regulatory environment, NBN and any unexpected outcome from the ACCC review of our declared services pricing.

Let me summarise before I pass on to John. We are focused on three things going forward and remain confident about them. Firstly, financial results: we will grow top line and bottom line and our free cash flow equation remains very, very strong. Customers: customers are at the heart of everything we do. We are focused on our customers and we want to provide to our customers an experience that they value. Also the national broadband network and regulatory environment: we are committed to remaining open and in dialogue as we go forward but we are focused on shareholder value.

I also mentioned that we are currently doing a refresh on our strategy. We will take you through that in October. We think this is an exciting path as we start to plan our next three to four years.

May I finish by thanking the executive team and also all the staff at Telstra who have worked incredibly hard to deliver very strong results in a very strong environment. I can't stress how pleased we are with the results. We think this is a very strong result as we move forward. We remain confident about the future. Despite the economic downturn, the demands for our core products and services remain very strong. With that, let me now pass to John Stanhope, who will take you through these points in more detail, thank you.

JOHN STANHOPE: Thank you, David. I know you all want to get to questions quickly, so I will be as quick as I can be. I am delighted to tell you we have reported in line with our key financial objectives or our guidance for the fiscal year 2009.

These results are a great achievement given the impact on the Australian economy of the turmoil in the global financial markets, something none of us have really experienced before. As I have said previously, we continue to be resilient but not immune to the economic conditions that we are in right now.

First, I will take you through the key numbers. David has referenced some of these. Sales revenue grew 2.9 per cent to $25.4bn and total revenue grew 2.7 per cent to $25.5bn. If you adjust for the budgeted revenues not received due to the sale of KAZ - which was sold in April, you might recall - the total revenue grew by 3 per cent, which is in line with our guidance from February.

Our tight control of opex continues, with operating expenses up just 0.6 per cent for the year and down 0.5 per cent on the prior corresponding period in the second half, so that is reflecting our determination to reduce costs.

EBITDA was up 5.1 per cent, or half a billion dollars, to $10.95bn, with margins expanding by 1 percentage point to 43.2 per cent. EBIT rose 5.3 per cent, which is above the upper level of the guidance that we gave, which was in the range of 3 to 5 per cent, so our EBIT is now $6.6bn for the year.

Profit after tax and minorities rose 10.3 per cent to $4.1bn. The higher profit after tax relative to EBIT occurred due to a 17 per cent decline in finance costs due to the fair value adjustments that occur under IFRS.

Free cash flow continued its upward trajectory due to higher EBITDA and reduced capex, and we have maintained our final fully franked ordinary dividend at 14 cents per share, bringing the total for the fiscal year to 28 cents. Our dividend is now substantially covered by free cash flow, which is another key financial milestone for the company.

Let me now talk a little bit about the guidance. I am pleased to provide this guidance for fiscal year 2010. It demonstrates that we are leveraging the transformation investment made over the last four years, and we remain firmly fixed on our target of $6bn free cash flow in 2010. This is consistent with my comments back in February that we expected to be towards the low end of the previous or the old $6bn to $7bn target.

The target now, we should note, includes around a $500m cash outflow or cash contribution to our pension fund. That was not originally in the plan way back, four years ago.

With respect to the other guidance measures, the old five-year CAGRs set in 2005 will obviously be too broad a guidance range for 2010. So we have therefore simplified our 2010 guidance whilst retaining the detail from the original objectives, and we have attached at the back of my presentation a reconciliation to the old objectives, so you can have a look at that.

In 2010 we expect to see low single-digit revenue growth, and EBITDA margins will be maintained. In these difficult economic times, I am delighted that we continue to see the top line growing, complemented by bottom line growth. One point to note is that this is a sales revenue guidance to be consistent with our EBITDA margin calculations; not the total revenue growth as was the case in prior guidance.

For 2010 we expect EBITDA margins to be maintained. There are three primary reasons for this being lower than the original targeted margin of 46 to 48 per cent in fiscal year 2010.

Firstly, the economic slow-down is clearly impacting the business, with falling usage levels for PSTN, which is high margin, as we all know, and mobile voice calls. Secondly, we are getting greater than expected growth in lower margin products, such as broadband and IP. Thirdly, we see a slight delay - and I did mention this in February - in realising the benefits from the IT transformation. And there is a fourth: we could have cut costs deeper, I guess, but we are now very conscious of the customer experience, that it needs improvement, and so to make radical cost cuts while we are trying to do that was not sensible or responsible to do.

Importantly for our shareholders, the strong revenue growth we have seen over the last few years means that absolute EBITDA in 2010 should still be close to $1bn above the November 2005 consensus level, and around $500m above the actual fiscal 2005 EBITDA level.

With D&A - depreciation and amortisation - at around $4.5bn, we do expect to see EBIT grow next year in the low single-digit range. We expect accrued capex of less than $3.8bn in fiscal 2010, which equates to around 14 per cent capex to sales, as was our guidance previously, and I want to briefly comment on the overall cost of the transformation program, as this seems to be a little misunderstood.

I remind you that the overspend on the entire transformation is around $200m, and there is mix change within that total number. Remember, it is not just about IT. It is about 2 per cent of the original transformation budget. This is a relatively small incremental cost over the huge five-year project.

Results day really is not the time to go into the details of this, but I will talk about it in detail at investor day - and I actually mean where the capital was spent, the change in mix from IT, network, and so on, and the cost outcomes. So I will do that in October.

All of the guidance that we are giving here, of course, does, as David said, exclude the impacts of any government regulatory review or NBN outcomes and any unexpected outcome of the ACCC wholesale pricing determinations. They are on foot and we have, in our guidance, made some allowance. However, it is along the lines of what we expect, and we could get an unexpected outcome.

Let me move on. Our product mix continues to evolve as our retail units leverage the transformation investment in the Next G and Next IP networks. Mobiles, retail, broadband and IP and data access are growing as PSTN continues to decline as the customer needs evolve and they change their telco spending habits.

Since the start of the transformation, the proportion of revenue from PSTN - and you can see this in the pie chart - has declined by 10 percentage points to just 25 per cent, while mobile revenue increased by 6 percentage points to 27 per cent, and so that is what I mean by this product mix change that we are experiencing.

This year, we again achieved double-digit revenue growth in mobile services, at 10.0 per cent; revenue growth in fixed retail broadband grew 15.9 per cent; there was an 8.1 per cent revenue growth in IP and data access; and a 5.8 per cent revenue growth in Sensis.

PSTN revenue declined, and that decline continues at 4.9 per cent. It is a combination of things: a substitution to other calling products, but also just lower usage from the impacts of the economy.

In terms of product profitability, I am pleased that over the last 12 months we have seen improving margins in mobile, fixed internet, IP and data access and Sensis, with declining margins tracking declining revenues in our PSTN business. The way forward in these new product areas is for us to keep getting economies of scale, which is obviously our objective.

Given their growing importance, I want to give you some more colour on mobile data and IP access, which is the next slide. Mobile data grew 31 per cent, with annual revenue now in excess of $2bn, almost double the amount two years ago. I note that we have slightly rebalanced how we report the breakdown of mobile data. We have tried to simplify this. Wireless broadband now constitutes cards, USB dongles and embedded modems, while mobile browse packs are in what we call non-messaging data.

Wireless broadband revenue surged 69 per cent to $587m, with SIOs up from 526,000 to reach over 1m at the end of June, and other non-messaging and data revenues increased 19 per cent to $547m, which you can see on the left-hand graph on the slide.

During the year, SMS volumes grew 28 per cent, so that SMS continues to grow to 9bn - that's quite an amazing number - while MMS volumes grew to nearly 70m and that includes video calling.

The Next IP network is also delivering, with IP access revenues up 25 per cent to $667m. IP MAN/Ethernet revenues increased 38 per cent to $321m and IP WAN revenues climbed 19 per cent to $216m. IP access revenue now exceeds legacy data revenue. So you can see the shift away from old technologies to the new technology and us leveraging our investment in Next IP. Our investments in the Next G and Next IP networks are really clearly showing dividends.

Just briefly on the segments, I want to mention the performance of each of the three retail units to highlight the momentum in the second half in particular. Our Consumer business unit had a very solid performance with sales revenue up 3.1 per cent and EBIT contribution up 3.2 per cent. The second half revenue growth actually exceeded the first half growth, and that was a great achievement, given that the second half included the impact of the deteriorating economic circumstances, continued aggressive competitor pricing, the integration of BigPond access into the retail units, the transformation of the retail channel via T[life] store roll-out, and the stretched resources that were in Consumer, given the migration of millions of customers into the new IT systems. So that performance was in a fairly difficult year, I am sure David Moffatt would agree, for Consumer.

In Telstra Business, our Telstra Business group achieved total sales revenue growth of 4.7 per cent, with operating leverage continuing to accrue. The growth was also achieved despite a significant slow-down in growth in the second half in mobile and PSTN.

In the fiscal 2010 we will do more to take advantage in the business segment of Next G and Next IP, and we believe that churn will fall over the next 12 months in this segment while our fixed broadband market share will again increase in this segment.

Our Enterprise & Government business unit had a great year, as you heard David passionately speak about, with revenue growing 2.9 per cent to nearly $4.8bn, with EBIT climbing 5.2 per cent, and underlying revenue growth in the TE&G segment, taking out the KAZ sale impact, was 5 per cent, so underlying performance was 5 per cent.

We have had many contract wins, as David referenced, helping to ensure the further momentum in growth, and these included the Commonwealth Bank, worth up to $1bn over the next 10 years.

Let me just touch on the global stage. Our international businesses generated more than $2bn of revenue in fiscal year '09. CSL New World, as you heard David say, was hit by very tough economic conditions in Hong Kong where there is already a very strong competitive market. It did have, in Hong Kong dollars, double digit declines in revenue and EBITDA, resulting from falls in voice revenues and volumes of handsets sold. However, with the significant investments that we focused on in CSL in the year just past, we expect - well, we know - it is well positioned for growth going forward.

TelstraClear produced a solid performance with revenue growth of 2 per cent despite the impact of the ongoing New Zealand recession. The Consumer business inside TelstraClear grew revenues nearly 20 per cent, while the

Enterprise & Government group in New Zealand won many new customers.

Our China assets continued to experience very positive growth rates, with SouFun delivering local currency revenue growth of 29 per cent and EBITDA growth of 55 per cent, and we are also very pleased with the integration of our purchases in the online and mobile content spaces. Autohome and the computer equipment vertical are also performing very well, so those investments are proving to be doing very well.

Let me move onto expenses quickly. Opex growth, just 0.6 per cent, was comfortably exceeded by sales revenue growth, so good gross margins, if you like. Our expenses are under tight control and operating leverage is emerging from the transformation investment with more to come. So, yes, while there is some delay - and I mentioned that back in February - we are still on the path of leveraging that transformation.

I am going to go into each category a little bit. Labour costs first. They fell by 0.6 per cent to $4.1bn, mainly due to the reduction of 2,881 FTEs, or full-time equivalent staff, during the year. That now brings the reduction to 11,665 since 2005. You will remember that back then we mentioned 10,000 to 12,000 as the likely reduction from productivity improvement. So we have achieved that objective a full year early. Both figures, of course, as we always do to get to the reference point, exclude the impact of acquisitions we have made since then or divestments we have made since then.

In the second half of the year labour costs fell 4.2 per cent, and this is important, and the labour reduction gives us a good run rate, therefore, going into 2010.

Labour costs would have declined even further - that is, by 2.3 per cent - had it not been for the calculation we have to make for long service provision which bounces off the 10-year government bond rate. A lower discount rate causes the value of the long service leave obligation to increase.

There will be further reductions in FTEs in the coming year, although they will be smaller than in recent years, and we will do, in terms of staff, what we have to do to deliver the improved customer experience that David has spoken about.

Let me talk about the directly variable costs. They increased by 2.5 per cent but still met our objective of maintaining the sales revenue growth at or above the rate of variable cost growth.

The cost of goods sold fell 5.4 per cent to $1.9bn, mainly due to lower use of handset subsidies. We were vigilant in the management of subscriber acquisition and recontracting costs, with the blended rate decreasing by 12 per cent from $158 to $139 in fiscal year '09. This was assisted by the increased use of our mobile repayment option and lower subsidised post-paid volumes. So it was a combination of rate and volume.

The reduction in cost of goods sold was offset by a $185m increase in network payments. $84m of that was due to FX impacts, and $76m was due to increasing traffic volumes terminating on other networks, be it offshore or domestically.

In the other category, service fees increased 14 per cent, primarily due to a rise in the pay TV expense, but of course that has an offsetting increase in pay TV revenue.

Service contracts and agreements and other expenses. Service contracts and agreements tends to get a bit of a focus, so let me talk through these. We achieved a 0.4 per cent or $21m reduction in service contracts and agreement expenses and the other expense categories. Leading the decline was promotion and advertising. It fell $78m, or 17 per cent, as we adopted a more targeted go-to-market approach in our promotion and advertising, and discretionary costs fell 12 per cent or $53m due to our tight cost control through the year, with double-digit declines in things like travel - so we are using our own technology, Telepresence, and so on, to cut down our travel bill - and legal costs reduced and the transformation training wound down as well, so we spent a little less on the transformation training.

Importantly, the service contracts and agreement costs did continue to increase, nearly to $2.4bn, partly due to higher call centre volumes being handled by our industry partners.

Now, we did say back in February that we were experiencing higher call volumes as we moved through this migration, and, yes, we have had to use our industry partners more to help us with those volumes as we have moved through that customer migration.

However, service contracts and agreement costs fell 2 per cent in the second half. So we are starting to see the volume peaks reduce and we are getting back to where we want the trajectory to be.

Bad and doubtful debts increased by 15 per cent to $289m - probably not surprising in these sorts of conditions. We had higher aged debts and insolvencies due to the economy and we had some transitional issues as well with our IT systems, and we were unable to make as many outbound calls and so on. However, the total impairment and diminution costs fell 4 per cent as we improved our stock management and we had far lower stock write-downs and we had better terms, so far better management of our inventory.

Let me move on to capex and depreciation and amortisation. The accrued capex was $4.6bn, or very close to, which was in line with our guidance range. The capex continues to track lower from the transformation peak in fiscal year '07, and this year it still included relatively high levels of IT capex, but it is on the decline, and it includes, in part, the upgrade of the HFC in Melbourne, which we announced earlier in the year.

The downward trajectory will continue, with accrued capex expected to fall to less than $3.8bn in fiscal year 2010. Depreciation and amortisation climbed 4.8 per cent to $4.4bn this year, and the D&A included $172m for the accelerated depreciation of the network at CSL New World. That has now been fully depreciated.

David has spoken about the regulatory review, and so you know our position, but I do want to talk a little bit about this. There is one area where there probably remains confusion and misinformation about functional separation or the impacts on our business. There are lots of flavours of operational and functional separation. Some represent a tightening of the existing regime, whilst others require an almost complete unwinding of our IT transformation. As I said, in Hong Kong, in March, our estimate of the impact of a base case - so light touch, if you like - functional separation is around 4 cents per share and that's an NPV calculation not an EPS impact. These are mostly one-off costs and not an ongoing burden.

Whilst more extreme separation would be probably enticing for our competitors, it could take five years or more to implement and would be a major disruption for Telstra inside the company, but also a disruption for us in serving our customers. It is something that has to be kept in mind with respect to regulatory and legislative changes, and in our regulatory submission in June we acknowledged the concerns expressed by the government and the ACCC about the current telecoms environment, especially the perceived lack of equivalence and transparency, but we also did not overlook NBN, and made the point that any changes or remedies to the current regime must assist, not impede, the transition to NBN.

That NBN can proceed in a timely fashion, we believe, is a crucial issue, and Australia must learn from the lessons overseas where onerous regulation of legacy assets can stifle investment and innovation and can take a long time and be a huge distraction from what now is the main game, we believe, the NBN.

Let me quickly go to free cash flow. It is growing strongly. Free cash flow increased by 13.2 per cent to $4.4bn this year. The operating cash flows were $9bn while investing cash outflows were $4.6bn. The decrease in investing cash outflows was mainly due to the operating capex as the transformation capex continues to decline.

I would just say one thing. I guess some people in this room are saying, "Okay, $4.4bn; you talk about $6bn, how do we get to $6bn from that point?" Let me hit the question before you ask it. It will come from about $1bn lower cash capex; the remaining $600m will come from EBITDA improvement, improvement in working capital, and some lower tax payments as we realise the benefits from some tax R&D claims related to our transformation.

Financial parameters and interest. Let me just touch on these. In terms of financial parameters, we remain at the stronger end of our target ranges for each. Debt servicing or net debt to EBITDA is 1.4 times versus our target of 1.7 to 2.1 times; our net debt gearing ratio is at 55.2% versus our target of 55% to 75%; and EBITDA interest cover is 9.6 times versus our target of more than 7, so a strong financial position. Our borrowing costs fell as the average effective interest rate on average net debt fell from 7.3 per cent in fiscal 2008 to 7.1 per cent in fiscal year 2009. So spreads increased but base rates for borrowings declined.

So let me conclude with the same message that we have been giving for several years: we remain firmly focused on delivering the financial outcomes of the transformation. In particular, we are aiming at delivering $6bn of free cash flow in fiscal year 2010. That is what we believe our shareholders value the most.

The mix of top line growth, margins and capex to get to that target has moved slightly over the last few years as the customer needs have evolved and the economic slow-down has occurred, also impacting a whole lot of parameters. But we are firmly fixed on delivering that target of $6bn free cash flow.

Thank you, David and I will now take some questions.

BEN SPINCER: As I mentioned, we will take questions from the floor here and also from calls. We will take the first three questions from the floor here and then we will go to the conference call. The first question will be from Ian Martin.

IAN MARTIN: Thank you. David, well done, first up. You have come out on the front foot regarding expectations for next year. It looks quite positive, except for a couple of instances that I would like to ask about. One is the EBITDA margin outlook - that you want to maintain margin at the 43.2 per cent, roughly. But, in fact, it was 42.2 in the first half '09; 44.2 roughly in the second half. Should you be maintaining at that higher level, in the 44 per cent range, if not pushing to 45? That is the first question.

Secondly, the free cash flow targets. You have emphasised that, and well done to you on doing that and maintaining that target, but the question now should be, well, what is going to happen to that cash flow? Your outlook statement mentions significant excess free cash flow and all the flexibility that that brings - I just wonder what the options are there and why we haven't perhaps been more positive about some of that cash now coming back to shareholders.

DAVID THODEY: Thank you, Ian. Let me take both questions. Firstly on the EBITDA margin. We did reflect on this a lot. As I said, we are seeing a change in product mix and we want to try to make sure that we manage that carefully.

The economy is slower, so, therefore, revenue. We just want to be considered about what we are saying going forward. Then, of course, we want to leave some investment in terms of customer service. Yes, I am aware of where the EBITDA margin finished for the year and we just think that it is probably, using a word that John has used before, considered margin, but if we can push it higher, we will, but we just think that that is the right place to start.

Cash flow. Well, yes, we do have options, and we are going to continue to look at what options we have going forward. Again, what we do with the cash is something that we discuss at the board, and as we go through that we are going to continue to look at where we need to invest, and if something good comes up - but let me assure you, if we can give more back to shareholders, we definitely will, but we are just going to leave that open for now because we want to continue to get the strategy behind us, and we will give you some sense of that in October as we go forward.

IAN MARTIN: May I follow up on that? Is there some risk that some of that cash flow might in fact flow into NBN Co in return for some equity there, but ultimately into a vehicle that Telstra wouldn't have control of?

DAVID THODEY: Ian, as I said, we have not factored anything in there because it is so hard to know what the parameters are there. We will work through it and see where we get to. That is an option, but the only way we would ever do that is if we think we are going to drive an improved shareholder outcome. I cannot stress that enough. That is the only setting we really have. If we do do that, we will come back and talk, but that is not on the horizon at the moment. John, do you want to make any comments on that?

JOHN STANHOPE: No, I think you have covered it, really.

IAN MARTIN: Thank you.

SAMEER CHOPRA: Good morning, Sameer Chopra from Deutsche Bank. I have two questions. In terms of depreciation currently, the business is doing about $4.5bn. How do you see depreciation playing out in the future, because D&A is running above capex. When should we start factoring a pull-back in depreciation? That's one for John.

One for you as well, David: you spoke about some of the strengths in your products and segments. If you were to look out, say, three years out, which products and segments do you think can keep sustaining that level of growth? What are you most optimistic about?

DAVID THODEY: Let me ask John to handle the depreciation question and then I will handle the growth points.

JOHN STANHOPE: Sameer, you have to remember that the spend that we have made on IT is large, and that has short amortisation periods - so five, six years. So you won't see D&A go down for a while. I have said this a number of times. It will hover around the $4.5b for a few more years.

DAVID THODEY: The growth trajectory of what are the key products: unquestionably, wireless. Wireless is a very compelling proposition, and you have seen this ability to grow wireless data which, in many instances, has been incremental. So that is a critical trajectory.

The growth in broadband. There is an insatiable appetite for broadband access, both in IP but also in the residential market. The critical area is how you drive value from that. So I think that is a very strong trajectory for us as we go forward, irrespective of what happens around NBN.

Thirdly, we do see strong opportunities in this managed network services area. We think that in the enterprise and in the business market, network-based applications, network-based services, the intelligence within the whole cloud environment is playing uniquely into the strengths of the telco, and I say that as a guy who has worked in the industry for a long time. So they are the three trajectories.

I would also like to mention the online world. We are seeing some very encouraging signs there. We are just going through that at the moment. The China portfolio has tremendous growth. Now, obviously in China you have to be careful, there are risks in doing business there. But in terms of the online verticals and what Bruce is doing within Sensis, I think they set us up well for the future. They would be the four key ones that I would be looking at.

SAMEER CHOPRA: Thank you and congratulations.

RICHARD EARY: Hi, Richard Eary from UBS. Just a couple of housekeeping points. John, you mentioned on the tax side that you thought there was obviously going to be a reduction of tax in 2010. You paid $1.6bn in tax this year, can you give us a feel in terms of what the R&D benefits are going to be?

JOHN STANHOPE: I won't give you a precise number but it is north of $100m.

RICHARD EARY: Okay, thanks. Just with that in mind, presumably when you give the guidance $6.5bn free cash flow pre the pension top-ups and you add back the cash capex of about $3.8bn, and then you add back the tax, clearly you are getting to somewhere between $11.5bn and $12bn in EBITDA; is that fair to state?

JOHN STANHOPE: You are pretty close.

RICHARD EARY: Just on Sensis, there were obviously comments that you were pretty happy with the way that the business is moving. Clearly as we are moving into the end of this year when we do all the pre bookings, is there any feel you can give us in terms of how that business is tracking in terms of pre booking or pre sales?

DAVID THODEY: Look, there is no question the economy is tighter. I think, as I have spoken to Bruce, we talk about the canvasses. It has been more challenging, but Bruce and the team have quite a unique proposition. Remember, they go in with a proposition saying, "If you advertise in Yellow Pages, these are the results we can give you", and while it has been up and down, I think the guys are feeling, you know, considered about it. I don't think it has been a run-away year, but Bruce do you want to make a comment?

BRUCE AKHURST: Yes, I think we are very happy with the product range and the new products - the voice products, the online products, the China products are all doing very well. White has had a great year and that is continuing on. The print products are a bit slower this year than last year, reflecting right across Australia in the advertising industry. We are seeing market share growth, we are seeing retention of customers and more growth in customer numbers, but it is a little bit more subdued, we are seeing, just at the moment.

RICHARD EARY: Is that because the numbers are down year on year in terms of the pre-bookings to date?

BRUCE AKHURST: I don't know that we are giving those forecasts, are we?

DAVID THODEY: No, it will probably reflect how the economy is going would be the best way to go, because the small business base really reflects what is going on in the economy and they are pretty considered about where they are putting their money but we are very confident about the business.

RICHARD EARY: I have one last question on International. You touched on it a few times in the presentation. I don't know whether you can give us a feeling in terms of your thoughts on how Telstra International looks in the future and maybe give us an update in terms of whether a SouFun or an IPO is planned.

DAVID THODEY: Firstly I will give you more detail as we finalise the three to four-year strategy. Obviously as you look at Australia, first of all that has always been our focus. That is where we derive most of our revenue and profit from, so we will have a very strong focus on Australia. But over the years we need to continue to look at how we can expand the business. Right back from OTC days to now, it has always been a critical part of our strategy, but it is only, what, 10 per cent of our revenue, so it is very small. It will play a part in our ongoing strategy but the question is how, and that is what is the big question. So you have to be very considered about where you go.

Secondly, we have been pleased with the businesses in China. We are learning a lot about how to do business in China. It is not without its challenges but the financial results have been very strong. We continue to have a strong team up there, Bruce and Justin are spending time up there. John is on the board and we are continuing to watch that very carefully. But remember it may be a small part of the business but it is a very fast growing part.

JOHN STANHOPE: As to your question about the IPO, we have not made decisions. We are still considering the IPO, and it is market determinants, and all sorts of things as to --

DAVID THODEY: It is an option; as we go forth it is an option.

BEN SPINCER: I will now go to the line and take a couple of questions from the phones.

THE OPERATOR: The first question comes from Christian Guerra from Goldman Sachs.

CHRISTIAN GUERRA: Good morning, and thanks for you time. I have two questions for you. Firstly, on E&G and the SME business. We saw a big slowdown in the second half in terms of revenue growth with E&G falling to 1.9 per cent from 3.9 in the first half, and on the business segment going to 2.2 from 7.2 per cent. I am wondering if you can talk about what is driving that, whether it is the economy or whether you are losing share, and also if you could talk about the impact on the margins given that I remember back in fiscal '03 when E&G got crunched, your margins got crunched as well.

Secondly, on the cost and the cost saving target, John, you talked in the past that you intended on targeting a $500m to $800m cost reduction by fiscal '10. I am wondering what the new numbers look like and also whether you are confident of margin expansion into fiscal '11 as you highlighted at investor day the last year.

My third question is on the NBN. I am sure you can't say too much at the present time, but your fixed broadband subscribers went backward in the past six months, which clearly has implications for the demand equation with the NBN. I am wondering if you can talk about that, please.

DAVID THODEY: Do you want me to take the first one, John, and I'll give you the second one? Enterprise & Government and TB - two different stories. Firstly the half on half on TEG was primarily driven by the KAZ sale. If you normalise for that, it is roughly about the same. Enterprise & Government is tracking well and the sales pipeline is strong as we move into the year, so we don't see any real risk in there; in fact, on the margins side I'd say as strong as I've ever seen it.

However, Telstra Business in the SME market, I think is a more reflection of the market rather than share loss. It is just tough out there. It is not so much a loss due to churn; it has more either been cancellations or usage. That is really where we have been hit. I think that really reflects the market.

In terms of the margin impact, yes, it could be something which is sort of reflected in our considered view around margin going forward, but I think it would be more appropriate to say it is just the market; the small business market is tough. However our share of our presence there is as strong as I've seen it for many years, John, do you want to comment on that and on the second point?

JOHN STANHOPE: I think you are right about TEG and TB. Let me take the cost saving, Christian, the $500m to $800m. Clearly, the 2009/2010 guidance we have given indicates that I don't expect all the $500m to $800m to be achieved. Some of the reasons we have already given; for example, we do not want to cut too deeply because we want to improve the customer experience. That is one reason. The product mix is another reason. You might recall in the $500m to $800m, I think I put up a chart that had a level of DVCs that we expected. Those DVCs are a little higher because of the product mix change.

I mentioned there has been delay in the transformation cost-out. At this point in time I think there is probably about $100m we won't get just because of some circumstances that have occurred in doing the transformation and I will explain more about that in October. There is about $150m that has been deferred, so delayed, and that was the delay that I signalled in February. When you add those two, there is $250m in the $500m to $800m some of which is delayed, some not occurring, and the DVC impact has reduced it as well. That fundamentally is what has happened in 2010 in our guidance. As to your question about 2011, therefore I do expect improvement in 2011.

DAVID THODEY: Let me have a go on the fixed broadband question, Christian. As I said, broadband growth was up 15.9 per cent. We had very strong growth in ARPU. We have had a mixe change to the higher speed plans. Yes, while we had 20,000 growth in subscribers over the full year, it is a changed market, and this is a classic example where we are trying to get this share/ARPU profitability mix right. We are looking at that one and we will continue to determine what is the right outcome there. 15.9 per cent growth in revenue across and improving profitability, I think that is a very strong result. However I am conscious about our share. But remember with NBN and Tasmania, there is a way to go before NBN may be out there, but we are very conscious to make sure that share and profitability are kept in balance. But, yes, that is a very important focus for us and the team are working on it - so watch this space.

CHRISTIAN GUERRA: David, I am sorry but my question on the fixed broadband was more about the implications for the NBN economics if the subscriber base is going backwards. Clearly that is a bit of an issue.

DAVID THODEY: No, I would say that I think that our subscriber numbers probably reflect a bit of a decline in share. I think the overall broadband numbers are probably increasing in the market.

JOHN STANHOPE: Just slightly.

DAVID THODEY: Yes, just slightly. The growth rate in the market has definitely come back a bit, but what is very important is what will customers pay for high speed? That is what I think is the big question. Sorry I got that wrong, but that is very important

JOHN STANHOPE: I will give you a bit of a reference point, Christian. Our ARPUs have increased. There has been, I think, a 20,000 increase in SIOs overall, that includes wholesale - so retail fixed broadband has increased far more than that, about 140,000. We have seen an extra 82,000 people go up to 20 megabits per second.

That is very important to keep continuing to grow the revenues and that is how you get the 15.9 per cent revenue growth.

DAVID THODEY: It is really about managing these dynamics but I've got your point, Christian, thank you.

BEN SPINCER: Another question from the line.

THE OPERATOR: The next question is from Alice Bennett from Merrill Lynch.

ALICE BENNETT: I have a couple of questions. Firstly, on the mobile business, you referred to chasing, I guess, profitability rather than market share. Can you give a sense of what has occurred with your mobile margins over the last six months? Secondly, on the HFC upgrade, could can give a bit of an upgrade on how you are proceeding in Melbourne and whether you are still intending to proceed to the other cities outside Melbourne? Thirdly, on Sensis, that is a really very good result, particularly on the White Pages. I know you talked about it a bit but can you given us a sense of exactly what's driving that? Is it increased use of colour or how you are getting that growth in the print business? On the Sensis, I am wondering if you can give a sense of whether there is a vast difference between the regional and metro print publications. I guess trying to get a sense of whether the online penetration in regional markets has made any difference to your print businesses.

DAVID THODEY: Let me start off on the first question then I will pass to John because I think he will give you a better sense on the margins. I said the balance between share and profitability is what we are managing. For example, there were enormous subsidies in the market around the iPhone in the last six months. We took a considered view about our subsidies in the market. As you saw SARCs are down and we very carefully managing that.

We do think that the whole proposition around PDAs is very strong, but we are have to have a balanced view about that as we go forward because we have learned over the years, even back to when I ran the mobiles group, that you can get a bit carried away with just driving top line growth. However when we look at our results, 10 per cent growth at the revenue line, tremendous growth in terms of subscribers, 33 per cent of wireless data. In terms of the margins, John?

JOHN STANHOPE: The margins have grown. The mobile margin is about 37 per cent, EBITDA margins. Last year I think we told you they were 36 per cent. We have actually got a far better economic model to work out margins these days. They were probably a bit overstated last year. In actual fact the margins have grown more than 1 per cent over 2007/2008, but they are 37 per cent and have grown.

DAVID THODEY: To answer your question it is all about balance going forward. We do not want that share to get away on us. We will manage it carefully as we go forward month by month, quarter by quarter. The wonderful thing about some of these new systems and the retail outlets is that we are getting better as we go forward.

In terms of HFC we are committed to that roll-out. We have the team working on it now. We are excited about seeing what we can drive from HFC. We have good product. Just putting 100 megs out there really doesn't mean a whole lot. We have to have things for it to use, to change the experience. So we are committed to that roll-out. We think it will be exciting to watch and to see how it performs and we have some good plans in that area.

In terms of Sensis, let me ask Bruce to comment. Bruce is out there hustling on the streets every day, so Bruce why don't you give some comments on this.

BRUCE AKHURST: It is a great product. The customers love it. Everyone is using it and we spent a lot of time being able to explain that value proposition to customers. There hasn't been any particular magic about it other than really understanding what that value proposition is, how we bring buyers and sellers together and how if you want to be in business in Australia, whether it is in metro or regional small business you have to be in the Yellow Pages; and if you're in the Yellow Pages you are then online, you are then in mobiles, you are then on 1234. We have now done a syndication arrangement with Google. We have increased the reach of your Yellow advertising by about 25 per cent over the last 12 months so it is a much, much stronger value proposition.

In terms of how the particular products within that portfolio formed in the last financial year, Yellow Metro was slightly negative. Yellow Regional was slightly positive. White Metro was quite strongly positive and White Regional was not quite as strongly positive. We are seeing solid maintenance of the print product overall; overall the print was positive. The metro areas were under pressure, but the growth that we are seeing is coming from all of these product extensions into these new digital formats.

DAVID THODEY: Thanks, Bruce. I want to add maybe an editorial commentary. I have been incredibly impressed. I didn't know the Sensis business as well, but the level of sophistication that they have when they talk to a customer about the value that that print product drives is quite outstanding. The difference from just putting an ad in the paper or putting something out there in a flyer is we can track the response rate and therefore the return. I don't know many other products that can do that. That has been the incredible difference we have seen in Sensis over the last two years and that is a great credit to the team. There is some great sales excellence, so a great result.

I hope that we have answered your question on the upgrade on the HFC. I think I've covered that okay.

BEN SPINCER: A couple of more questions from the line.

THE OPERATOR: Our next question is from Mark Blackwell from Morgan Stanley.

MARK BLACKWELL: I have a few questions on wireless broadband. It is great growth in subs, of course, but it has come at the expense of ARPU, which is obviously what most would have expected given the $80 you were getting before. But is 62 or thereabouts what you are expecting to sell at or should we expect that to continue to fall? What is your view on that product and where the pricing will go?

DAVID THODEY: Let me make a few quick comments and then I'll pass to John because he has the details. There have been a number of factors there. You will remember we put out a prepaid product this year and that definitely pulls that ARPU down. There has been price competition. We think we are getting into the right ballpark. It will be a matter of the mix. We obviously are focused on driving contracted customers as we go forward. We think the prepaid product is good. John, do you want to comment?

JOHN STANHOPE: That just about covers it. It is primarily driven by going into prepaid wireless broadband. It has proven very popular. Obviously the mix change has changed the ARPU. If it continues to be as popular as it is, yes, it can go down a bit further.

DAVID THODEY: Yes, I agree. It is a wonderful proposition. There are up to a million subs now, which is great. We are looking for to seeing that grow. Of course, we still think there's lots of life left in that Next G network as we go forward.

BEN SPINCER: The last question from the line, please.

JOHN STANHOPE: Just on that, the counterbalancing factor is that more and more smart phones will come on the market, we will have more take-up in wireless broadband, so absolute growth will still be strong

THE OPERATOR: The next question comes from Sachin Gupta from Nomura.

SACHIN GUPTA: I have three questions. (Indistinct)

DAVID THODEY: Sachin, can you repeat that question?

SACHIN GUPTA. ....(Indistinct). Lastly, you mentioned a number of times that protecting shareholder value is being discussed with the government and talked about 18 per cent previously. I was just wondering is that still the basis of discussion? .

DAVID THODEY: We missed the first question. Do you want to repeat the first question?

BEN SPINCER: Yes. Sachin, could you repeat the first question, please? We've missed him. We will take the second and third question.

DAVID THODEY: You take the second one.

BEN SPINCER: The second question was around the trends in EBITDA growth by 2010 being somewhat below prior expectations and an explanation for that.

JOHN STANHOPE: I think I went through it in my presentation. We have had this DVC mix change which has increased the DVCs. Then when you have the PSTN coming off and that being a high margin product set, then that's what has happened to EBITDA margins. The growth in EBITDA has also been impacted by the cost explanation that I just went through. EBITDA growth would have been greater had there not been that delay in the cost IT transformation realisation. All those things have accumulated, if you like, into EBITDA growth and the EBITDA margin situation.

With regard to the third question about 18 per cent return, we are a long way off discussing what detail of NBN might look like. At the end of the day, and you might have picked up in our tone today, in what David has said and what I have said, this is about protecting shareholder value. In protecting shareholder value, that could mean a return that actually results in that protection. We are not locked into a number is what I am really saying.

PHIL CAMPBELL: Phil Campbell from Citigroup. I have a couple of questions for David. From the presentation this morning, I am picking up probably three subtle but important changes since you have taken over. The first one is obviously a greater emphasis on customer service; the second one is this focus on the market share and margin mix; and the last one is obviously the NBN where you are actually talking more friendly with the government. I want to check whether there are any other changes that I may have missed or if those are the three that you think are valid.

The second question is that maybe you could give us a bit more information on the first two. In terms of customer service, is it a case that customer service levels have declined to quite a bad point or is it a case of trying to make sure that service levels are at a high level as we go into an NBN environment?

The other question is on this margin kind of market share mix, I can kind of understand the background for that. Again like in mobile you would think with Hutch and Voda doing a merger, you might have thought the opposite and though maybe you would more aggressive in that space. A little more background around two those things would be great.

DAVID THODEY: In terms of the subtle messages I was trying not to be so subtle. Customer service is critically important. You say why? Well, when you go through a big transformation, there are all those impacts, but this is something that is at the heart of what we do. Think of the number of customer interactions every day in our front of house, in terms of the field technicians. We think this is an incredible opportunity to really differentiate.

Before I go into that a bit more, the only one you have missed in terms of those first three was product differentiation and the integration across Next G and Next IP. This is very, very important and has been a continuous theme. So actually there are more than three; there are four.

Coming to customer service, yes, we have seen the TIO complaints; in our industry, not just Telstra, our industry has gone up. Our share of the complaints going to the Ombudsman is about the same, but we have far too many. If you go back over five to six years, I think it has been a significant increase. That is not good for our industry. It is not good for Telstra. It is not good for our customers, and I am not going to put up with it.

May I also say that I do not need an Ombudsman to handle our customers. It is such an indictment on our industry and on Telstra. So that is the reason. But more than that, if I can reduce churn and I can differentiate - you know the numbers, any customer you save, it is far better than trying to acquire one. So we are about reducing churn. If we can hold our customers longer that is good for our shareholders - so very simple.

The second question was around the share mix. I am not quite sure how to answer that one in the sense that it has always been a priority for us. In fact when we have talked about differentiation and value, we have always been very considered about that mix. Maybe it has become a little more prevalent now because we have seen people put a lot of money into the market to try to attract subs and we are conscious not to fall into that trap. That does not mean we don't want to be competitive. We want to have a premium around value that is justifiable and clearly articulated, and we will move with the market. But it is a very considered mix, and we have learned over the years to be better and better at this, by every day, by every week and by every month. That's what I think is probably the bigger change. At any one time, we will see some of it up and down, but we are about profitable revenue growth. I hope that gives you some colour. We can talk more about it as we go forward.

BEN SPINCER: We have four more hopefully very quick questions from the floor. We need to move on to the media session.

MARK MC DONNELL: Good morning. Well done, on the results and if I may say also congratulations on a far more credible set of forecasts particularly around the EBITDA margin. There are three areas I would like to touch on briefly: revenue, opex and capex. On the revenue side I was wondering if you could be a little more specific about the composition from new services into your growth expectation and in particular into the second half. Presumably by then the DOCSIS 3 upgrade will be complete and we should see a range of new products coming through, particularly in broadband. So what proportion of your revenue growth guidance is contributed to from new services?

MARK MC DONNELL: In relation to opex, you've spoken about further head count reductions. I am wondering if you can quantify that. Also in relation to cost overruns in the IT transformation program, my understanding from speaking to IT people at Telstra, is that there are still major issues. There are certain functions in Siebel, for example, that take five times as long to perform as in the old legacy systems. What are your expectations about the future dimensions of cost overrun? What sort of contractual protections do you have, and what is the magnitude of that in the year ahead?

Then that leads to my third question, which is more capex related and that is actually about where we are in the capex cycle and in particular what is implied by the technology transformations that have occurred and the substitution of purchased equipment for leased equipment? In particular are we seeing a truncations of the capex cycle, so while everyone is focused at the moment on a reduction in FY10 as we go forward, the replacement times for a lot of the network and IT equipment and software may in fact be much shorter than historically? Can you comment on that?

DAVID THODEY: Let me have a go at the revenue one and then I will get a little bit of colour from John as well. Firstly your supposition that we have to drive more from the new products is right. As to the flow-through of that into the specific numbers, we would probably need to come back to you and give you some colour. We do have a lot of focus on how to drive out from the HFC upgrade but also some of these integrated products in terms of the home of the future and also the business of the future.

As I said, driving that growth from off the platforms is pretty important. It is sort of in the mid-40s; we think that will go significantly up as we go forward - so, yes, very important. Some of the managed services areas are important, also, in terms of content. Do you have any specific numbers, John, because I don't have any off the top of my head?

JOHN STANHOPE: No. Obviously we're expecting growth in the newer products that we have today, wireless broadband and so on, but I don't have a proportion of the growth going forward off the top of my head.

DAVID THODEY: We can probably come back; we just have not done that calculation. Obviously PSTN is still going to go down. We have to keep driving that up. Let us talk about the opex head count and IT transformation, and if the guys down the front want to help me out, they can. Firstly we have not given any guidance specifically on head count, but I want to stress that this business is always moving. We are a technology company. We are about using technology to drive productivity. Therefore we are very focused on how we can drive productivity.

The skills mix is the other thing. We are seeing some of our old skills we don't need. Especially as we start to move people more on line, what are we going to do with the people who have traditionally taken calls? So, yes, we do expect over time to drive productivity improvement - we must do. That's about at our heart, but we did forecast, was it 12,000 people?

JOHN STANHOPE: 10,000 to 12,000

DAVID THODEY: We are not putting forecasts out there but let meet assure you our focus on productivity remains as strong and as vigilant as ever.

Now, in terms of the wonderful Siebel roll-out, I am going to share a little bit of experience with you and then John or David might want to comment.

A lot of people have asked me about Enterprise & Government, why have they come across now. I will tell you why: because we did it in 2002. We put Siebel in. No-one somehow managed us to think about it, but we did it.

I can remember what happened. We put it in and the first release was an absolute failure. Then we had to pull it out and put it back in, and I think it took us something like 15 months of just working every application, trying to get the processes right. Some we had instantaneous benefits from and some took us a good while, because we had to redefine the way we did the transaction.

Siebel is a wonderful product, it gives you a lot of flexibility, but it takes time for people to get the value from. So I'm not concerned about driving the value from the Siebel deployment at all, absolutely not. I think it will take us time, and that is partly what we have reflected.

I don't think there is any necessity for recourse to anyone because we are going to drive the value from the product, but it just takes time, and when people stand up and say, "You drop a new release in in a CRM and you get instantaneous benefit", well, it is just not true. So that is where we are focused. So, no, we do not have any recourse to anyone.

David, do you want to put on any colour, or John? These are the guys who are doing it, and they are running it every day

DAVID MOFFATT: The average handling time for an agent to serve a customer changed a little bit through the deployment as people got used to it. It was as big a change as we are ever going to have in any 10- to 15-year period of time at front of house, so everyone had to be retrained in all new processes, while we are simultaneously migrating customers, et cetera, et cetera.

There are certainly a couple of things that might be up and down in terms of the relative individual components of how you serve a customer, but, overall, our average handling times are trending right back down to where we want them to be and they are right on track. So with that comes the benefits that we need.

But, as David has indicated, the focus is now on investing in the customer experience, solving their problem the first time, making those kinds of changes. The Siebel system helps us enormously to do that because we can see the entire customer record in one place and we can serve the customer for all of their needs which we could not do before. So this is definitely a major step forward for the company and for the customers, particularly, as a result of what we're doing, and for our agents.

I will finish with the comment that we did a pulse survey of our employees through the middle of this which was for us to test how things were going, and employee engagement went up 2 per cent. So from my point of view, I am totally satisfied that we have not yet finished all of the benefits that are going to come from the releases that are yet to conclude, but once we put the whole package together it is going to be a terrific result for our employees, our customers and, ultimately, the shareholders.

DAVID THODEY: Let me add quickly another editorial comment. One of the great things we have now done is that the benefits from the CRM now sit with David. So in his plan for this year, and for next year, he has to realise the benefits, both in customer service and in the productivity benefits. But I don't want to just leave it out there. It is difficult. It is not straightforward. We still have a lot of work to do to get it bedded in, and get the real value, but now the work starts.

JOHN STANHOPE: I have another comment about IT. We are all experts in IT, as you know, but on the cost front, you made the comment about costs overrun. I commented on realisation of benefits, but there are lots of rumours out there about costs overrun.

In October I am going to take you all through how much capex we have spent and where. There are things in this IT transformation program and spend that when we started weren't in there - for example, BigPond wasn't in the transformation; now it is. That took some more money. So there is a whole lot of things that I will go through to detail the spend, and it will become clear to you.

Yes, there is a little bit more complexity, and we did spend some more money as we came to the realisation of more complexity, but I will take you through that in October.

Capex, life cycle and so on. We foresee over the next few years around 14 per cent capex to sales, and as sales go up that means, therefore, capex will go up slightly, and we think that that will cope with what I would call normal evolution.

Let's say LTE comes along, or 4G mobile, whatever you want to call that. There will be a kicker. There is no doubt about that. And there may be a time when there are other technologies that come along that cause a kicker, but, right now, for the next few years - and LTE is not tomorrow or next year, maybe not the next year after that. Over the next three years, I am confident about our 14 per cent capex to sales.

But you are right, there will be some technology life cycles that give a kicker in the capex, as always happens in this industry, by the way.

MARK MC DONNELL: Okay, but, just to clarify, that's 14 per cent for the next three years, John?

JOHN STANHOPE: That's what I have said, around 14 per cent. I have said that I am confident, unless something comes along. If LTE has to come forward for some reason, I'm wrong. But, failing that sort of thing happening, it should be around about there.

LAURENT HORRUT: Laurent Horrut, JP Morgan. I just have a question: given your EBIT growth guidance now, and assuming you don't have a similar IFRS adjustment in 2010 am I right that you think that your impact could be flat from the $4.1bn that you have just reported?

JOHN STANHOPE: I am not expecting it to be flat but I am not expecting it to be as high as this year.

LAURENT HORRUT: Just on the IFRS adjustments, you are reporting $900m in interest costs this year; the normalised level would probably be more like $1.1bn.

JOHN STANHOPE: As the debt maturities wind out, your fair value gain will decline, and so next year the gain will be less and less as the debt profile reduces.

LAURENT HORRUT: A very quick second question. Looking back at the transformation plan, when it was outlined five years ago, there were three objectives: revenue growth acceleration, opex reduction and capex reduction. I guess it would be hard to argue that you have not been successful in the revenue growth objectives, so we will give you full marks for that.

It is less clear to me what it has actually delivered in terms of structural benefits on the opex, on the cost base and on the capex side, because I do remember years where Telstra was actually spending only 14 per cent of sales and I do remember that in 2005 the margins were 47 per cent. So I am just trying, looking forward, to think we have spent $5bn or $6bn of incremental capex above what should have been spent, would have been spent, otherwise: what are the actual structural benefits that are going to last beyond 2010?

DAVID THODEY: Let me give a perspective and then I will let John comment. I think you are right. I think we are yet to see the flow-through of the benefits from some of the IT transformation. But remember, Next G, Next IP - enormous value. In terms of just the operations in that business there has been a lot of value. But in terms of the IT transformation, we are yet to see the flow-through. We have done a lot of investment, training, getting people to get used to these new systems - new bills. It is an enormous job. When you put a new release of the software out, there is an incredible amount of work of looking at every plan iteration.

So, as John said, we think that is delayed and we think it is out in the future, but we had no option. We had no option. As the business was getting more complicated, the systems were getting harder and harder to manage, there were too many legacy systems, we had to do it. But, yes, we now have got to drive the benefits out. So, still a work in progress.

ANDREW LEVY: Andrew Levy, Macquarie. Just a quick one on the functional separation slide. Can you give us an idea for the BT and Telecom New Zealand models, what are the implementation versus ongoing operational impacts, if you had to split it percentage wise, capex versus opex? And the other part was, I guess, do you have any assumptions in there on market share shifts or product shifts because of the separation if it was imposed on you, or would that be a separate factor?

JOHN STANHOPE: It is a separate factor. The latter is not factored in.

The right functional separation - we saw a range from adjudicator, which was part of our submission, and then you could have adjudicator plus transfer pricing, or you could have adjudicator plus transfer pricing plus partitioned systems and, as you go up those forms of separation, it costs you more and it takes you longer.

The 4 cents or the $500m that I talked about, the 4 cents NPV, is down at the bottom end, with some partitioned systems. So it is transferred pricing - well, we had not thought of the adjudicator back then. So it is quite a light touch, and then you can get right up to the other end, a very expensive unwinding of the IT systems in order that you have complete separation. I won't say how much, but that is a lot of money and a lot of time.

ANDREW LEVY: The thing I am trying to get a feel for is how much upfront capex and money you would have to spend directly on the systems and how much should be ongoing - if you have oversight --

JOHN STANHOPE: Okay. Again, it depends on which model.

ANDREW LEVY: Yes, just for the bigger ones - Telecom NZ, BT.

JOHN STANHOPE: I will give you a range, $800m to $1bn, and ongoing, $50m to $100m, in five to six years.

ANDREW LEVY: Just on that last part, should you have something for change in competitive dynamics?

JOHN STANHOPE: When you think about it, you are still in the retail market, it is just the cost of being in that market. So the cost to operate goes up. I don't know that it affects your go-to-market all that much.

ANDREW LEVY: Thank you very much.

SANDRA McCULLAGH: Sandra McCullagh, Credit Suisse. David, I think you should just quantify the customer service comments that you made. Could you give us some idea of what the lower-than-desired customer service is costing you in terms of churn and compensation for customers? So what is the potential prize at the end of this customer service improvement.

DAVID THODEY: That is a good question. Firstly, I am primarily focused on getting rid of the unnecessary work. I think there are too many repeat calls coming into the business; there are too many transfers; we are having to respond to too much. So I think there is enormous opportunity to reduce work. That is in the five to 10 per cent-type range. That is in work elements, as you go forward.

But the critical thing is if you can just move churn by 0.1, 0.2 of a per cent, the benefits to us are that it goes straight to the bottom line. So they are the sorts of things. I don't need to move churn very much to get an enormous benefit.

We are still working through some of that. We have some internal targets which we have set, but we will see that, maybe we will talk about that at the end of the year. But, very important: this is not just a nice, feel-good thing. We want business results from it.

BEN SPINCER: Thank you very much. We will conclude there. I will pass back to David in case he has any final comments.

DAVID THODEY: Thank you very much. Thank you for your time. We will obviously be talking to a number of you over the next few days, but we have finished with strong results and we are looking for to the next year. Thank you.