

7 March 2006

Office of the Company Secretary

The Manager

Company Announcements Office
Australian Stock Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

Telephone 03 9634 6400
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

**Transcript of speech by John Stanhope Chief Financial Officer Telstra, at the
Goldman Sachs JB Were Australasian Investment Forum – New York.**

In accordance with the listing rules, I attach a transcript of a speech given by John Stanhope Chief Financial Officer Telstra, at the Goldman Sachs JB Were conference, for release to the market.

Yours sincerely



Douglas Gration
Company Secretary

MODERATOR: Well, ladies and gentlemen, we'll move to our next session, and it's my pleasure to introduce John Stanhope, Chief Financial Officer and Group Managing Director of Telstra Corporation, and he's here with David Anderson, the head of Investor Relations.

John was appointed to the role of CFO in 2003, and it's interesting just to note the press over the last couple of days with the potential for the AT&T and Bell South merger, because in Australia this is something that Telstra ought to use in terms of providing services right across the spectrum. So it's interesting to see others moving back that way.

Telstra's in the midst of a major business transformation program which we'll look forward to hearing about, and is currently capped at around 48 billion Australian dollars. So, John, welcome.

Slide 1

MR. JOHN STANHOPE: Thank you very much, Graham, and good morning, everybody. It's very interesting what has occurred since I was here 12 months ago at the inaugural Australasian Goldman Sachs conference. New CEO, new strategy. You can't change much more than that really. But it's exciting times in Telstra, it really is.

It's been a year I guess since I addressed you, and what I'll do today is while I'll focus a little bit on the half year or interim result, I really want to give you a sense of our strategy and how we're proceeding with that.

Slide 2

Obviously, we have the normal disclaimer that you're all used to seeing I guess.

Slide 3

Okay, so let me start by explaining why we needed to undertake this transformation. The reality is that the financial trends at Telstra, not dissimilar to telcos around the world I suppose, are not good, and they have continued on from the last fiscal year. So the trend continues. And what I'm really talking about here is that the Telstra top line growth has been decelerating, and what is concerning I guess is that the PSTN or the fixed line revenues are declining at such a rate, that the revenue base associated, or more to the point, the earnings or the EBIT growth associated with the products that are growing - broadband, wireless, and our classified advertising business called Sensis - are not yet big enough to compensate the earnings reduction caused through the decelerating PSTN or fixed line revenues.

Our telecom related revenue mix is shifting towards those lower margin products with PSTN revenues now 33 percent of sales compared to 40 percent two years ago. Broadband growth is strong, and its margins will improve as we build scale and reduce the operating costs in the delivery of those services.

It is essential that Telstra does maximize its market share in the newer revenue streams to capture as much of the migration that's taking place away from PSTN to those products as we possibly can.

With a multiplicity of network elements and the rapidly rising volumes, the cost of running all of this is growing rapidly as multiple evolutions of mobile technology mean we are currently running three wireless networks. We have multipole evolution of data services, most of which is still in the network. And this is clearly inefficient. So all those things are the reasons why we need to transform this business.

Slide 5

But with that, let me just give you an overview of the results for the first half. I won't spend too much time on this.

Slide 6

Overall, the results of the first half was in line with the guidance that we gave and consistent with

the trends that we had flagged at our strategy day on the 15th of November last year. Modest sales revenue growth was more than offset by cost growth, leading to a decline in earnings performance and margins. The 6.8 percent increase in operating expenses before depreciation and amortisation does include a 78 million increase in redundancy and associated costs as we continue to focus on reducing staff. Without the increase in that redundancy cost, the growth would have been about 5.6 percent.

Domestic cash operating CAPEX increased 5 percent, driven by the latest joint venture payment to Hutchison for our 3G network sharing agreement on the 2100 megahertz band.

A fully franked dividend of 20 cents per share has been declared which includes a 14 cents per share ordinary dividend and a 6 cent per share special dividend.

Slide 7

The key drivers of our sales revenue growth continue to be internet, broadband, mobiles, and our Sensis business, offset, as I said earlier, by the declining PSTN and legacy data revenue.

Broadband revenues continue to surge. They were up 73 percent. Our recent marketing offers have

gained traction as we added 41,000 more retail subscribers than wholesale in the past six months. On the strength of that result, we believe we have increased our retail market share to 43 percent, that's up 6 percent for retail broadband over the last two years. And you'll see later we have an ambitious target to even increase that further.

Our information services search and transaction business, Sensis, delivered a 5.3 percent revenue growth over the first half, and it is on track to meet its 2006 financial year target of 6 to 7 percent organic revenue growth.

Total mobiles growth has slowed, and I would characterise this as a fairly mediocre result, 4.6 percent compared to the prior years. As expected, capped plans, or bucket plans as they're probably more known here, impacted yields in the average revenue per user. Calling revenues are flat with mobile services growth driven by mobile data which was actually up 14 percent in half on half. Where mobile data was once dominated by SMS, high speed data revenues are now emerging with blackberries and other data usage.

The PSTN decline accelerated slightly faster than we expected at 7.6 percent as volume migration and yield pressures continue. Those trends will be

addressed when we implement our market based management approach. However, we are seeing good retention from our latest broadband offer.

Slide 8

Operating expenses including depreciation and amortisation were up 6.3 percent. The major driver was in labour, which was up 9.1 percent, and as I mentioned earlier, \$78 million was because of the redundancy payments as we begin the staff reduction program. But salary increases accounted for 45 million, and there was a 59 million increase from controlled entities coming in for the full six months into the calculation of our result and, therefore, the growth in costs.

The increase of 3 percent there you see in goods and services purchase was driven mostly by higher network payments for a full six months of offshore acquisition activity and increased domestic volumes. Other expenses increased 8.4 percent, mostly related to increased service contracts. So contractors associated with broadband demand in particular and some customer access network rehabilitation.

Depreciation and amortisation was up 4 to 5 percent as the asset base does continue to expand to support broadband and mobiles in particular. The new strategy will impact depreciation and amortisation, as

we mentioned, on the strategy day in the second half as we take elements out of the network as we build our next generation network.

Slide 9

Operating capital expenditure increased 8 percent largely due to the \$312 million 3G joint venture investment payment we made to Hutchison. The other main driver is the increased international cable capacity required to support the increased demands for data and higher bandwidth from the increasing broadband penetration in Australia and obviously the consequential international traffic that occurs from that. The pipes are filling up out of Australia, across to particularly the U.S.

Our guidance for full year, or fiscal year '06 I should say, cash operational expenses, CAPEX rather, including offshore, is between 4.8 and 5.1 billion which includes spend on the strategic initiatives that we will be taking in '05/06.

Free cash flow, you can see from the slide, has declined 4 percent as a result of a number of factors. The graph shows declines in the operational categories of EBIT, working capital, tax, and operating CAPEX, partly offset by an improved investment CAPEX position. We haven't made as many acquisitions in this

first half as we did in the first half in the prior corresponding period.

Slide 10

So let me now just sort of finish off the half year that was by looking at the outlook for the full year.

Slide 11

We expect EBIT to decline 7 to 10 percent before taking into account the strategic review overlay. When we include the strategic impacts like the accelerated depreciation I mentioned before, we expect EBIT to decline 15 to 20 percent, and should we take a provision for redundancy provisions in June '06, then it'll be somewhere between 21 and 26 percent. So '05/06 is really the first year of where we need to spend to, or reinvest for the future if you like with our new strategy.

A regulatory caveat remains pending key decisions by the regulator and/or the government, but more about that shortly.

Notwithstanding this, we remain committed to improving long-term shareholder value, and that's what we're really on about with respect to this new strategy or the transformation that this company needs to undertake.

Slide 12

So let's now turn to how we can do that through the successful execution of our new strategy.

Slide 13

Our objective is to create long-term shareholder value by providing integrated communications services. We will be, we will invest to take complexity and cost out of the business. We will get to know our customers like we've never known them before through market-based management. And we must win in broadband and wireless by doing it smarter around value-added and integrated services.

We can increase ours by adding application and content value.

We are going to invest in new services and applications to differentiate ourselves in the market. Telstra with its breadth of product range is uniquely placed to do this. The one thing about Telstra in Australia is that it has all the service opportunities to it - it's a cable company, it's the fixed line company, it provides pay TV services, etc.

Where we'll accelerate the growth opportunities at Sensis, that it is our information services, search, and transaction business. And we will

target investment where we can create value and limit investment that lacks shareholder safeguards.

Slide 14

So let me just talk about a few of those things. The goal of market-based management is for us to know our customers like never before and deliver integrated services personalized or tailored to them. Our strategic marketing initiatives are the key plank in changing Telstra into a customer driven organisation. We're putting the customer at the center of everything we do, and this will be reflected through improved market shares, higher average revenues per user, and reduced churn.

Ultimately, the key to reinvigorating our top line growth is knowing the customer intimately and delivering value that they're willing to pay for. We continue to focus on integrated voice, video, and data services to truly differentiate what we can do for customers.

And those are not just words coming from me or on a page. We'll be demonstrating some of this at the Commonwealth Games shortly to be held in Australia.

Slide 15

Now let me just move back to the second key pillar of our new strategy, and that is our One Factory

model. Our current network infrastructure is complex, duplicated, and costly to run. We are going to streamline our processes and bring all the components under our One Factory model.

The Factory will provide the platform through which we will deliver innovative, integrated services available only from Telstra. It's going to operate with four basic principles. Well, already is operating with four basic principles: We're going to do it once, we're going to do it right for the customer, we'll do it in an integrated way, and we'll do it at low unit cost.

We're going to make things simple, but the payoff will be extraordinary. It's going to unleash value and energy right across the company, and it will make the savings sustainable which is very, very important.

Slide 16

Turning now to our next generation network strategy where we have set some aggressive technology transformation targets. One of the first things that we're going to do, we're going to provide a platform for rapid and ubiquitous delivery across an integrated services platform and networks, offering a consistent customer experience, again, with lower or low unit

costs. Then we can scale costs effective, and it will be aligned to our customers' needs.

Our plans to roll out fibre to the node are on hold, we announced that in December, because it is subject to regulatory safeguards. But other elements, and this is important, of next generation network rollout will continue in order to modernise the core network and save costs.

For example, very quick example, 200 central offices or telephone exchanges will be reduced to 10 soft switches. You save the land, the buildings, the air-conditioning, battery power, all those sorts of things. So the scope is quite enormous.

Our next generation Ethernet will provide common carrier grade aggregation for all traffic onto the IP core. It's going to be cheaper, it's going to be more reliable than our current architecture. It will support the capacity and demands of our new applications, more cost effective, especially in video and IP.

We will simplify the multi-service edge with a single operating support system architecture with eight times speed increase. We're going to remove over 1,000 edge devices, and we're going to support the common services to our customers regardless of what kind of

access network. So this will provide connectivity for business customers, be it frame relay, ATM, Ethernet over a common IP core.

The support voice services over the core include the plan over telephone service and voice over broadband. We're going to have high capacity soft switches which will provide for a full redundant, resilient network, and, as I described, at a much lower cost. The new architecture is designed to accommodate multipole access technologies.

We're rolling out a single national 3G mobile network in 850 megahertz spectrum band with higher data speeds through HSDPA and upgradeability to Super 3 and then 4G.

We will be rationalising our business operational supports system which currently number over 1,200. We plan to remove some 80 percent of these systems within three years. So there's a real excitement around our operations area as they set about the task of taking 1,200, over 1,200 systems down to 300 or so.

Slide 17

Obviously, the transformation will be a long-term process. This is a plan that will take three to

five years. But here's some of the progress already made.

Slide 18

We've commenced our headcount reduction with 1,000 of our workforce including contractors leaving the company since June 30, taking our workforce to 51,000. We have commenced a number of cost reduction programs.

A comprehensive review of OPEX projects stopped in excess of 400 low value projects and a CAPEX review has identified over \$300 million that have been redirected to our strategy imperatives.

A 48 percent reduction has occurred in our ADSL held orders.

We've undertaken the most comprehensive customer survey program ever undertaken in Australia. To date, we've completed over 22,000 interviews across our consumer and SME base. We now have a much greater depth of customer research from which we've identified seven specific segments within our consumer area - 18 product segments and 126 micro-segments.

Slide 19

Just quickly to our network transformation. We have already signed a number of key contracts and have our strategic vendor partners in place to build our next generation network. The IT transformation team

have finalised the detailed scoping of all 26 operation support system domains and signed a BSS, business support system licensing agreement with Seibel.

In our pursuit to reduce complexity, almost 200 platform exits have been identified. In our pursuit to reduce complexity, all these things are now in place. So you can see there's a lot of activity in the short time since we announced our new strategy. It was only the 15th of November. It seems a lot longer ago, but all those things have happened since. So we are moving quickly.

Slide 20

However, there is a key caveat to all that we're doing. It is the regulatory environment in which we operate.

Slide 21

So we see three key regulatory issues that impact our strategy. It is the Unbundled Local Loop, it is how the pricing is organised, whether it's averaged or de-averaged, and it is about the cost. We are looking for a \$30 national average price, and we expect to have a report back from the regulator by the end of March on the structure of the pricing and also give some estimate of our undertaking which is for a \$30 price.

The second key issue is safeguarding new investments. While we announced our plans to roll fibre to the node as part of our strategy, it's always been subject to the appropriate safeguards. We don't currently have those, so that's why we put fibre to the node on hold. We continue to have discussions on our position with the government.

The final issue is operational separation. We have made a draft plan available for public consultation, that period ends very shortly, and the government responds to our plan, and then if it needs upgrading, then it will be upgraded. But the first two are the most important regulatory issues that we face. Operational separation, whilst it will cost us some administrative costs, it is not the most important. The first two are.

Slide 22

So subject to the reasonable regulatory outcomes I just talked about, let me now reiterate the long-term financial outcomes we expect from the transformation or the new strategy for Telstra that we did enunciate on strategy day.

We are committing to 2 to 2.5 percent revenue growth over the next five years with 20 to 30 percent of revenue growth coming from new services. Our 2010 cost

structure will be no higher than the annualised number of the first half of fiscal year '06 that we've just reported on. By fiscal year 2010 we expect EBITDA margins will be recovered to between 50 to 52 percent.

We will have 6,000 to 8,000 fewer employees and contractors on our payroll in three years time. We are going to spend 2.5 to 3.5 billion in capital over and above our normal capital program in the next three years to transform the business.

After transforming the business, we expect CAPEX to fall to 12 percent of revenue; from then on to grow, and from then on to grow in proportion to future revenue growth. And we expect to generate free cash flow in the order of \$6 to \$7 billion by the year 2010.

And for our shareholders, we intend to pay 28 cents per share fully franked dividend for the next three years, of course, subject to normal board considerations.

Slide 23

So with that, let me leave you with our key messages.

The underlying trends of deteriorating traditional product revenue and cost growth have continued in the half just gone. However, we have set

the way forward to transform our business, and we've made a tremendous start in a very short period of time.

A final point, as you may be aware, the Australian government now has the ability to sell its remaining stake in Telstra. Global coordinators and the institutional sale panel have been appointed. The government is expected to announce the decision in early April as to the timing of the further sell down and how it might occur. And Telstra supports, of course, the further sale, and we'll work with the government to achieve this.

So thank you for listening to that, and I'm sorry it was a little rushed, but I really did want to lay the foundations more about our strategy and how well it has already started.

MODERATOR: Thanks, John, we probably have time for a couple of questions. Does anyone have a question from the audience?

QUESTION: Hi, could you just talk about what the cash costs of all those redundancy takeouts are and

-

MR. STANHOPE: Sorry, the what?

QUESTION: The cash costs of the redundancies on the last slide.

MR. STANHOPE: Yeah.

QUESTION: And then what you assume for the five-year labour cost growth.

MR. STANHOPE: Yeah, okay, the cash costs of the redundancies already built into this plan are about, in the '05 about \$250 million. We had 100 million in the original plan, and we increased it by 158 for the second half for so far '06 year, and then there'll be around a further 300, 350 million to complete the 6,000 to 8,000 redundancy program.

Now if we meet all the criteria, we'll provision for that in this fiscal year. There will be some restructuring provision as well. So in other words, the cost of taking out air-conditioning and removing, writing off some projects that won't be finished, etc. that we'll also include in our restructuring costs. Sorry, the second part of the question was?

QUESTION: (inaudible)

MR. STANHOPE: Oh, okay. The salary assumption is we have an award agreement of 2 percent increase over the next three years, and the contract staff - and that's about half our staff. The contract staff increases are 3, 3.5 percent.

MODERATOR: Is there one more down here?

QUESTION: Apologies, John, but until this morning, I hadn't seen these EBITDA target, EBITDA margin targets for the outer period. Can you just roughly break down where, the composition of that by business division? With a lot of your wireless competitors globally moving closer to 30 than 50, these are very exciting numbers if you can hit them.

MR. STANHOPE: Well, our wireless margins are already substantially higher than are our competitors and world peers. Fundamentally, and it's probably the most common question I get asked about our strategy is how do you get margins, EBITDA margins back up to above 50 percent.

Two reasons really. Our market based management approach is very important, but all that means is knowing the customer a lot better, but it also is a bit about knowing what to sell them. And what we intend to do is lead in Australia away from price discounting to value pricing, but you have to create the value before you can sell the value to your customers.

So how do you do that? And it's by integrating services, both wireless, broadband, fixed. So in other words, if Sol was here today, he'd be talking about the One Touch, the One Screen, the One Button. Even that in itself creates value for a

customer that a customer's prepared to pay for. That's just a simple example, but it's also about then adding applications and content to your broadband. We have set a significant ARPU increase target for our broadband business, for example, because up till today it's just been about access and download limits being exceeded.

Our broadband ARPU's are about \$50 today, a bit north of \$50. We think we can get those a lot higher by value-added applications and content for our customers.

Now that's the revenue upside, so integrated services, applications and content, leveraging our Sensis business which we already are between our big pond and Sensis business, and, of course, the cost takeout. I mean, that's also an element of it.

And I did get asked a question earlier this morning, you know, you guys have been taking costs out for some time, and I can remember 2001 we had a 10,000 staff reduction target. We achieved it. Now we're talking about 6,000 and 8,000. So how can you do that?

Well, we've got six work ticketing systems to the 7,500 workforce that just is so unproductive. It sends truck rolls to wrong places. It sends multiple truck rolls, because you've got six ticketed systems, the truck will roll out to do broadband, and the

customer has moved home and wants broadband fixed line and pay TV. The truck goes three times instead of once just because we got multiple ticketing systems. So for our house customers, for our house staff we've got six systems. They manipulate four sales contacts. So we've got staff working, doing good work, but they're doing it all because they've got, this duplicity and complexity of systems.

So it's those revenue things I described plus the cost out.

MODERATOR: We'll probably have to leave it there, so I'd like to thank John very much indeed for his presentation and for you and David attending the conference. Thank you very much.

(applause)