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Dear Sir or Madam

**Transcript of presentation by Tarek Robbiati, Deputy Chief Financial Officer
Telstra, at the ASX Investor Hour Conference**

In accordance with the listing rules, I attach a transcript of a presentation by Tarek Robbiati, Deputy Chief Financial Officer Telstra, at the ASX Investor Hour Conference, for release to the market.

Yours sincerely



Fiona Mead
Acting Company Secretary
On behalf of Douglas Gration
Company Secretary

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TRANSCRIPT

TELSTRA CORPORATION LIMITED

ASX INVESTOR HOUR

SYDNEY – 16 MAY 2006

TAREK ROBBIATI

DEPUTY CHIEF FINANCIAL OFFICER

FACILITATOR: Well, it's still just good morning. Nice to see everybody down here again for investor hour. As you're all aware, investor hour is brought to you by the Australian Stock Exchange, the Australian Shareholders Association and the SDIA. We get together and pull our collaborative knowledge to bring together I guess speakers that we think you'll find interesting. You've probably noticed we usually take a macroeconomic and then a microeconomic view, sometimes the stocks to watch, sometimes a broad economic focus. But today's speaker is a little bit different. Before I get into the introductions of today's speaker I'd like to just go through the housekeeping very quickly, obligatory requirements.

Exits of course you know you came in through one just there. There's others right at the very back. You'll also see them off to the side. But when you're leaving the premises we choose not to use these ones on the side. In the event of some sort of evacuation there's a couple of different tones that they use. There's a beep-beep one, and that's just to let us know that something is amiss and if we do need to leave there will be a whoop-whoop; easy, it's fairly straightforward.

Next month's topic is Ross Greenwood. We've got fliers out there on the front to keep you up to date. I always suggest visiting the ASX or the ASA web site to see what's going to be on. If I could just ask – it's probably an opportune moment to ask you to turn off your mobiles if you're with Telstra. Just even if you're not, in case it disturbs the speaker as we go along. Can I just have a quick show of hands, I'm interested to know who is at investor hour for the first time. So there's some regulars here. For those of you who found out about investor hour, can I just see a show of hands those of you who found the information via the ASX web site. Lovely, thank you very much.

Now, today's speaker, Tarek Robbiati, was appointed to the position of Deputy Chief Financial Officer at Telstra in 2005. His responsibilities include the role of group financial controller to the operations and program office and the finance structure supporting these areas. He also provides corporate finance advice to the CFO and CEO and supports investor relation matters including T3. I think today's talk will be quite insightful. Having had a quick look at the slides, there were certainly some things of interest there to me. I won't say any more about the speaker. I might let him give the background because he's probably more abreast of it than I am. So if you put your hands together and welcome Tarek to the state.

MR ROBBIATI: Thank you and welcome, everybody. I'm Tarek Robbiati and I'm here standing on behalf of John Stanhope, my boss, chief financial officer of Telstra. He sends his apologies, but he had to attend a pressing family matter today, and that's the reason why you don't see him here and I'm substituting him. What we're going to do today is to share some key elements of Telstra's new strategy that was outlined first on 15 November 2005. But before I do that, I'd just like to give you a couple of points about myself. I am European, I'm Italian. I've worked in the telecom industry for 15 years, either

as a consultant consulting for the vast majority of telcos in Europe, or as an equity analyst, the one who publish research reports. I worked for Lehman Bros as an equity analyst for four years and then my last two years in my career I spent at Orange in the UK working for Orange and the France Telecom Group. Now I'm here in Australia and I'm very much enjoying it.

So now back onto the real stuff. Let's talk about the strategy, but I'm afraid before we talk about the strategy elements I have to refer you to the disclaimer. So please take a few seconds to read this because there are certain things that we mention here that have to be put in the proper legal framework. Thank you. Now, let's talk about our strategy. Telstra is a business that has strong advantages. It is the largest telecom operator in Australia that offers the full suite of services to capitalise on the trend of truly converged services which I will describe in a moment.

First, we have an existing customer relationship with 10 million fixed-line customers and nearly nine million mobile customers throughout the country. We intend to leverage these relationships to drive penetration of newer products such as broadband and the application and content we can bring to customers to make businesses more productive and enrich consumers' lives. In addition, we have an excellent advertising and search capability via Sensis. Remember every month more than 12 million Australians use a Sensis service. In the vitally important emerging broadband market Telstra is the leading player and we are extending our lead. Over the last two years our retail broadband market share has increased from 37 per cent to 43 per cent and it's growing again.

We have the strongest brand name in the telecoms market in Australia, a name that just every member of the community is familiar with. Along with our leading domestic presence, we also have international presence through the recently merged CSL and New World Mobility Group in Hong Kong, TelstraClear in New Zealand, and Reach. Telstra has the scale and the scope in telecoms in Australia with a full suite of products allowing us to drive economies of scale. This is a very important point because this full suite of products and ability to integrate them allows us to achieve cost reductions as we rationalise platforms and streamline the business.

With this, we're well-positioned to defend against emerging threats. If we look at overseas experience, particularly the US, we are currently seeing telcos reconsolidating to gain the advantages of an integrated model, that same integrated model that we already have here at Telstra. In Europe it's not different. We are seeing pure wireless players who are at a disadvantage in certain markets push for integrated solutions on their own. Finally, our financial position as a company is sound. We have an investment grade credit rating and this gives us the flexibility to fund the sweeping transformation of our business that is necessary as we enter the broadband world.

Now, these were the good news. You may ask, if this is all so nice, why do we have to change? Well, before I get into the details of our new strategic

direction let me just take you back a step and explain why it is imperative that we develop this new strategy and implement it and why we need to make some fundamental changes. The reality is that the financial trends at Telstra have not been good and they have continued from the last fiscal year.
5 Telstra's top line growth rate has been decelerating. What is concerning is that PSTN revenues – the revenues from the traditional fixed telephony business – are declining at such a rate that the revenue base associated with our growth from broadband, mobile and Sensis is not yet big enough to compensate for the decline of the PSTN.

10 Our telecom-related revenue makes a shifting towards lower margin products with PSTN revenues now at 33 per cent of total sales compared to 40 per cent two years ago. Broadband growth is strong and its margin will improve as we build scale and reduce operating costs. It is essential that Telstra maximises
15 its market share in newer revenue streams to capture as much of the migration as possible. On the cost side of the equation – you can see that on the right-hand side of the graph – trends have also been concerning. With multiplicity of network elements and rapidly rising traffic volumes, the cost of running the business is growing rapidly. Multiple evolutions of mobile technology mean
20 that we are currently running three different wireless networks. We have multiple evolutions of data services, most of which are still in the network. This is clearly inefficient.

25 Now, how are we going to address this? Of course our objective is to create long-term shareholder value. But what does that mean? Our vision is to do for customers what no-one else has done in the past, and that is, creating a world of one click, one touch, one button, one screen, one-step solutions that are simple, easy and valued by individuals, businesses and governments alike. We will get to know our customers in a way that was never done before
30 through market-based management. Market-based management is simply the discipline of making sure that we optimise our ability to go to market and acquire customers.

35 We will also provided integrated communication services. We will invest to take complexity out of our business and simplify our infrastructure. We must absolutely win in broadband and wireless by doing it smarter around value-added and integrated services and not just price. We will invest in new services and applications to differentiate ourselves in the market. I've said before Telstra had the breadth of products which is unique in the industry.
40 We will accelerate growth opportunities at Sensis. Sensis we refer to as our information services, search and transaction business. And we will target investment where we can create value for our shareholders. I will address all of these points in the rest of the presentation.

45 We're going to deliver a value proposition to customers based on our competitive advantage as Australia's leading telecom company. Market-based management is the starting point in our value proposition, and I'll speak about that shortly. The next plank of our value proposition is our differentiated content. We are leveraging Telstra's applications and services

and the exclusive content of BigPond, Australia's leading ISP, and Sensis, our information services, search and transaction business, to provide a richer customer experience. Not only we have the differentiation of content, but also we can provide this over multiple devices to deliver a truly seamless integrated customer experience.

This isn't something that is out there in the future. It is here and now. It's available now to our BigPond customers nationally and within our metro 3G coverage area. Upon completion of our national high-speed 3G mobile network these services will be available nationally for all mobile customers. We have already successfully moved Sensis from being a pure print business 10 years ago to being a market leader in online search. We're taking that integration step further and it's not only about enabling you to find what business you'd like to buy from, or in the case of Trading Post, enabling you to find a product you might be looking for, but we are taking it one step further, which is enabling you to actually do the transaction. We have already started this in our Trading Post business.

This value proposition, in our view, is attractive to customers because it delivers to them what they want, when they want it, and above all, does it in a simple way. This simplicity is critical because you shouldn't have to be a technology expert to be able to do these things. Customers simply won't use it if it's going to take them 20 minutes to figure out how to do it. So our vision, our one click, one button, one touch, one screen, one step simplicity is what we are driving towards. The simplicity matched with our ability to integrate, differentiate and know our customers better than anyone else will allow us to provide real value to customers, value that they'll be willing to pay for. The result will be a change in the current pricing dynamics from commoditisation of access to a model of value-based pricing. Remember, customer value drives shareholder value.

Now, let me talk about 3G. As you may know, we're building a single national 3G network on the 850 MZ spectrum. Currently, only Telstra Cingular in the United States and Rogers Communications in Canada are using the 850 spectrum. Cingular is launching their network in June of this year. There has been a fair amount of press lately about closing down our CDMA network. The CDMA network will not be turned off until the coverage of our 3G network is at least as good. Around the world main carriers are moving away from CDMA. For instance, if you look at carriers in Korea, which represent 14 per cent of the worldwide CDMA market, they are all moving to 3G.

In addition, there is a significant number of operators considering building 3G networks on the 850 spectrum. Some of these also involve swapping from CDMA. Why is that? Well, it's pretty simple. There's a law of physics that says the lower the spectrum the greater the area that can be covered. So for a landscape like Australia we need a network that is going to cover a large distance without increasing the costs associated with rollout and maintenance. With the coverage of 850 we have been able to minimise the number of base

stations we need, hence the capital we will employ, to service at least the same population.

5 By building the 850 network we will have Australia's only truly national 3G mobile network. This will mean all Australians living in coverage areas will have access to our superior coverage and content. For the bush, it is high speed wireless network. It's much better than what currently CDMA provides. We talked about coverage, but this is not the only advantage of 850. 850 also provides superior in-building coverage, which is of course critical to
10 customers when they are at home or in the office. With a truly national network we can rationalise our platforms to bring greater economies of scale and reduce costs over time. And we are currently in the process of acquiring a range of handsets and PC cards from vendors.

15 We are seeing a good range of handsets being developed. The handsets we will be able to offer will cover a range of brands and bands, both for use in Australia and for roaming overseas. But 3G is not just about handsets; it's also about mobile broadband by either the PC with PC cards or PCs having 3G antennas, the like of which Dell and Lenovo are producing overseas. We
20 will have a number of cards available at launch.

Now, after 3G let's move onto the next major component of our transformation. This is referring to the IT simplification. Our IT infrastructure is currently extraordinarily complex. As you can see from the
25 slide, we have more than 1252 IT systems which we intend to reduce by at least 80 per cent over the next five years. We're focusing on the implementation of fundamentally new capabilities in both the BSS – that is, the billing support systems – and the OSS areas – that is, the operating support systems – areas, which are needed to help us to manage the next
30 generation networks.

This dramatic simplification of platforms and products and plans will pave the way for implementation of these new capabilities. There will be multiple benefits from that. We will have less complexity, less outages, lower costs
35 and simplified processes for our front of house and back of house employees. We do have an aggressive timeline. Therefore, this begs the question, how are we going to do it? First, we're going to have world-class partners, and second, we're aiming to avoid custom builds. We're aiming to avoid any custom software developments which is costly and expensive and in the long
40 run difficult to maintain. It's a huge task that confronts us, but radical change is needed here.

Now, let's talk about market-based management. You've heard the acronym a couple of times by now. The goal of market-based management is for us
45 to know our customers like never before and deliver integrated services tailored to their needs. Our strategic marketing initiatives are the key plank in changing Telstra into a very customer-driven organisation. We are putting the customer at the centre of everything we do, and this will be reflected through what we believe will be improved market shares resulting in higher ARPU.

ARPU stands for the average revenue per customer. And we will have a reduced churn. There will be emphasis on profit and loss measurement at the customer segment level.

5 The market structure determined under market-based management drives the organisational design of our business. We have created dedicated teams to deliver value to each segment. Ultimately the real key to reinvigorating our top-line revenue growth is knowing our customer intimately and delivering value that they will be willing to pay for. We continue to focus on integrated
10 voice, video and data services to truly differentiate what we can do for customers.

Now, let me clarify a few points about regulation. Particularly I'd like to clarify the regulatory principles that we are seeking for existing and planned
15 investments. We all understand that there is substitution from fixed line to wireless, from legacy services to IP-based services, from legacy services and networks to next generation high speed networks, both fixed and wireless. We recognise that in the instances where there is a clear bottleneck hotspot that regulation is required to provide competitors access to the bottleneck
20 services.

However, when it comes to undertaking investments in new networks that will provide high speed and improved services to customers at a significant cost to the company, the company needs to be able to earn a return for undertaking
25 this investment. Our shareholders expect and are entitled to earn a return on significant investments where their capital is at risk. That's our argument for Fibre to the Node. We do not want an access holiday. We will provide competitors access only on commercial terms.

30 On mobiles the recent comments that the 3G network should be regulated we believe are without foundation. Mobile has flourished due to the competitive nature of the industry, not through it being regulated. We welcome, therefore, the comments of the Minister of Finance that the government wants to ensure regulatory certainty and that he is quite confident that access to new mobile
35 services will not be regulated.

Now, let's talk about our guidance for the end of this fiscal year '05-'06. As we announced back at our half-year results in February, we expect earnings before interest and tax to decline 7 to 10 per cent before the impacts of the
40 strategic review overlays. Including the strategic review overlays we impact EBIT to decline by 15 to 20 per cent, that, is the second bar chart that you see on the chart. This is due to the additional investment we need to make in order to achieve future growth and simplify our business. This will increase to 21 to 26 per cent should we take a redundancy provision in June 2006
45 which satisfies the appropriate rules. The regulatory caveat remains pending key decisions by the regulator and/or the government. Notwithstanding this, we remain committed to improving long-term shareholder value.

To conclude, let's summarise what Telstra's transformation will deliver. The transformation of Telstra will deliver a needs-based solution to customers using the concept of one click, one touch, one screen, one button, one step, which represents truly integrated services in an easy to understand way. On the network side we're building a state-of-the-art national 3G wireless network delivering speeds up to 14 mbps within six months of turning on the network with an average speed of 550 kbps to 1.1 mbps.

We are also building an IP core network which will deliver greater efficiency through common standards and platforms, a simpler environment in which to operate and lower unit costs. The flexibility the IP networks gives us will greatly improve our speed to market in a rapidly changing world. BigPond, it's a huge asset in the portfolio and represents the future of this company. And I'm talking about broadband on both wireline and wireless platforms. We will integrate BigPond content across Telstra's full suite of products which will grow access and content revenue. Our target is to further extend our lead in broadband by targeting retail market share growth.

Another growth engine for Telstra is Sensis. Sensis offers Australians choice. You can find what you need when, where and how you choose. Over 80 per cent of all Australian online advertisers are Sensis customers, offering unparalleled opportunity in the world of commercial search. Further integrating Sensis content search and transaction capability with Telstra's communication platforms will set us apart from highly vociferous competition in this space.

Now, let me share with you a little bit more of a longer-term perspective than the previous guidance that we talked about for FY06. Here are our stakes in the ground. In closing, let me just reiterate these. We are committing to 2 to 2.5 revenue growth per year over the next five years with 20 to 30 per cent of revenue growth from new services over the next three years. Our 2010 cost structure will be no higher than the annualised number of the first half of the fiscal year 2006, that is, 1 January 2006 that we reported in February. By fiscal year 10 we expect EBITDA margins will have recovered between 50 and 52 per cent.

We will also have 6000 to 8000 fewer employees and contractors on our payroll in three years' time. We're going to spend \$2.5 billion to \$3.5 billion in capital over and above our original plan in the next three years to transform the business. After transforming the business we expect capex relative to sales to fall to 12 per cent of revenues and from then on to grow in proportion to future revenue growth. We expect to generate free cash in the order of 6 to 7 billion by 2010. I hope that what I've said today helps you understand more of what we're doing with our transformation. I now thank you very much for listening and turning on to the audience for questions.

Q: What EPS could be inferred in 2010 given the cash flow of 6 to 7 billion.

MR ROBBIATI: The question is, what EPS would be inferred in 2010 given the cash flow of 6 to 7 billion. In the EPS calculations there are many things that come in. At this stage we have not issued such a precise guidance. We prefer to guide investors on the 6 to 7 billion number that I gave you before, because we think it's a more appropriate view to look at the business today. It's always better to talk in terms of free cash flow because, as you know, whenever you talk about EPS you have other elements that come in like depreciation, et cetera. At this stage we are not willing to provide any guidance on an EPS level. We stick to the 6 to 7 billion we provided on the cash flow basis.

Q: (Indistinct)

MR ROBBIATI: The question is, how can we defend our market against voice over IP, the voice over internet protocol? Well, voiceover IP is a promising technology. It is no doubt something that we have absolutely to be fully aware of. Having said so, you have to look at the whole suite of services. Let's not forget that voice over IP providers do not, for instance, offer emergency 000 services and they have to run over an infrastructure provided by a telco that does cover these. So it is not the only solution that will be the panacea for the industry. It is just one set of services that we have to be very aware of and we are aware of, but it's not going to be the only game in town.

Let's not forget also that to operate a voiceover IP network you need an IP core network. I talked about that before. We are preparing Telstra for an IP core network. We are investing substantial amounts of money, we talked about \$2.5 billion to \$3.5 billion, part of which goes into building an IP core network. So we are taking steps in that sense because we see there is a cost advantage. And some operators around the world have already done that.

Q: Can you outline what you are doing for training for technicians and other qualified staff in the next five years, please, at grass level and at graduate level, please.

MR ROBBIATI: I'm glad you're asking the question because it's always hard to put on a chart that you're letting 6000 to 8000 employees go without changing the way people do their jobs on a day-to-day basis. We are investing very heavily in training. All our technicians – we have created a training academy and we are investing more than \$200 million in training our field force to make sure that they are (a) equipped with the latest technology, but also that they are aware about the latest practices that they have to employ in operations to actually do their job properly. So this is a pretty substantial investment on any benchmark you may want to pick worldwide. It's 200 million on training just for the field force is a respectable sum.

Q: (Indistinct)

MR ROBBIATI: We said 6000 to 8000 people over three and then 12,000 over five. We have identified groups of individuals in the company that will be asked to leave, but this is all I can say at this stage. We haven't identified more specifically who these people are.

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Q: (Indistinct)

MR ROBBIATI: Yes, but don't forget it's unfortunate, it's very, very unfortunate, madam, that we have to take that step. You would want never to take such a step, but the reality is that unfortunately when your cost structure is not commensurate to your revenues – and this is what I kind of showed at the beginning of the presentation – then you have to take tough medicine. If we don't take these steps it's going to be a lot worse moving forward. I can tell you from my own experience I worked in a large telco in Europe, which I won't give the name. You have vast elements of the cost structure which remain unaddressed. From my perspective it remains a time bomb waiting to explode. So as soon as you know something in this business or in any other business, as soon as you realise that your costs are outgrowing your revenues you have to take those steps. As painful as these steps are, they're less painful to be taken today than if they were to be taken in the future and having missed on the fixes that you can implement today.

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Q: (Indistinct)

MR ROBBIATI: The question is, how many employees in percentage of the workforce? We have approximately 52,000 employees and contractors today in Telstra. So 12,000 over 52,000 over five years that's what you're talking about.

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Q: (Indistinct)

MR ROBBIATI: The question is, could you provide any comments about Telstra's ongoing role with Foxtel. We have an ongoing relationship with Foxtel and PBL. We continue to value this relationship. We are operating the pay-TV network together with them. So far so good; it's business as usual, nothing more to add on that I'm afraid.

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Q: Can I ask something relating to the morale of the employees with the knowledge that the overall employment future seems to somewhat denigrated. Does this emphasise any great morale problem, you've got a human resources nightmare or something? I'm just wondering do you have any emphasis on getting rid of older people, which seems to be somewhat highlighted in the news today? The other thing is if the future seems to be somewhat dim and if you can say 6 to 8 thousand – percentage-wise for 52,000 I suppose is within reasonable expectation. But do you detect any sort of downgrade in attitudes of employees who say, "What the hell am I working for?" Is that a reasonable question?

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MR ROBBIATI: It is a reasonable question of course, you know. We are making sure that morale is something we monitor. Let's not underestimate how radical the transformation is. The transformation that we're talking about is enormous, simplifying networks, reducing 1252 IT systems by 80 per cent, changing the work practices, as your colleague has asked before, investment in training and in tools. The transformation is radical and therefore it is very important that we mobilise our colleagues as much as possible to achieve the outcomes that we are asking. We cannot do this by being four, five people in the headquarters. Everybody is playing his role. What we are detecting is that people are very engaged in this, they are really thinking that what we are doing is the right thing for the business. There is a very strong esprit de corps in the company today and we're all driving in one direction.

It's only like that that we will be able to deliver our transformation. In any big transformation plan and change plan you do have to create the sense of formulisation, and we have invested time and time again and every day when I speak with my team I spend an awful lot of time explaining to them, "This is what we're doing, this is why we're doing it." Every manager in the company, John Stanhope, everybody spends time reiterating the purpose of what we're trying to do.

Q: Have you or the CEO any further information about the eventual takeover of the major part of the government shares? The government at present moment is owning 51 per cent. Right?

MR ROBBIATI: Yes.

Q: So obviously they've got the major vote in everything we do.

MR ROBBIATI: The government has – yes, it's true the government owns more than 51 per cent of the shares of Telstra, but Telstra is a company with its own board and its own governance and we are operating in the frame of the law as far as the Telstra Corporate Act is concerned, and we are as management working for all shareholders and not just the government.

Q: (Indistinct)

MR ROBBIATI: The government is selling its own shares. The company doesn't have anything to do with the government selling its own shares. We are not issuing shares for funding the transformation. We can fund the transformation with the cash that we generate each year. So these are two separate matters.

Q: (Indistinct)

MR ROBBIATI: If T3 doesn't take place, is Telstra going to procure some of the shares, are we going to buy some of these shares from the government. That's the question you're asking. This is not something that is envisaged at this point in time.

Q: (Indistinct)

5 MR ROBBIATI: I can refer you - because you read the slides very well I can also refer you to this slide. But I will answer your question and not really leave the question unanswered. We have given guidance for a fully franked dividends of 28 cents per share. Now, as you know, we have to give due consideration to some financial estimates as we decide on those dividend payments out. The board always evaluates the appropriateness of any dividend moving forward. For the moment it is our intent to pay 28 cents per share until 2008, as you see on the slide. There are two asterisks there that say subject to appropriate board considerations.

Q: (Indistinct)

15 MR ROBBIATI: It's the same answer you're going to get. If the financial parameters permit and the board gives a due consideration, you know, this is what we have to go through, dividends will follow based on that.

20 Q: (Indistinct)

MR ROBBIATI: What's plan B? I think that the one thing not to forget Telstra is a company in its own right and has a full suite of assets. We think that it's very, very important that we seek the regulatory outcome, which is that we must be able to invest to provide a return to our shareholders. This is irrespective of what network you're talking about. The reason why this is that if not, you are stifling the growth prospects of the company. No matter whether you're investing on mobile or fixed or any network you may choose, you need to have certainty about returns. Those returns have to be dependent on our ability to recover our costs. So it's a point of principle that we're taking on regulation.

Let's not forget if you follow the telecom industry how capital-intense it is. People tend to forget this, but when you look at the capex to sales ratios in telecoms and compare it, if you want, to a utility company, a gas provider or an electricity provider, that ratio is much higher. Capex to sales ratio on normalised telecoms is where we're going to get to is this 12 per cent that you see here on this slide. In utilities companies the life span of the investment is much longer because you don't have the same technological obsolescence that you have in telecoms. Therefore, knowing that it is becoming absolutely crucial to have some sort of understanding that returns is what drives your investment decision.

Q: (Indistinct)

45 MR ROBBIATI: As I said to you, you can hypothesise as much as you want but it's a point of principle. Why would we invest without having the ability to generate some returns for our shareholders? This doesn't make sense, irrespective of what plan you choose, B, G, F, whatever you want.

Q: When you sort out your troubles with the ACCC, how do you plan to roll out Fibre to the Node? Do you just plan to do it in selected areas or will this be a nationwide event?

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MR ROBBIATI: Right now the discussions with the ACCC are proceeding fairly well and I think decisions about rollout are all subject to that outcome. So we don't have any particular commitment as far as rolling FTTN in one area relative to another. It all depends on the outcome of the discussions with the ACCC, because, you see, a lot of things can happen in those discussions. A lot of things can be altering the outcome and we cannot today make such decisions without taking the outcome as a package. Once that is known and it's set in print, then we will make those decisions.

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15 Q: (Indistinct)

MR ROBBIATI: I'm glad you're asking the question. If you go back to this chart here you could see that the last item on the right is labelled "restructuring and redundancy provision" and this is where it will be taken. In essence, if you look at the guidance of 15 to 20 per cent - - -

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Q: (Indistinct)

MR ROBBIATI: The question was, what is the ratio corresponding to the redundancies and the potential reduction of staff of 6 to 8 thousand people. The chart gives you a hint about what the answer is and you can see that you have one element in the calculation here that shows that the restructuring and redundancy provision would dilute EBIT by 6 per cent. So that's the answer.

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Q: I noticed all those redundancies you had up there on the screen, I had an experience to get serviced by Telstra. So I rang up Telstra. They referred me to a call centre and I rang that call centre. They said, "We'll get somebody to ring you back." A company called Transfield rings me back to make a service date and then the service man that arrived was from, say, ABC company communications, those guys were ex-Telstra employees. So looking at that redundancy it seemed to be the poor old servicemen went around in a large circle. I'm just wondering are we paying more now for the service for an ex-Telstra employee and is Telstra now only becoming a utility and not a service company?

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MR ROBBIATI: No, no and no. Telstra is not a utility company, it's a service business. Maybe you're right, our service is not perfect and we have to improve it, but we're not a utility company. As to whether redundancies go full circle to contractors, there is - whenever you lay off someone who has a certain set of skills it is not unlikely that you see the same person who has the same set of skills emerging in another organisation that services the industry as a whole. Telstra has been servicing and representing the telecom industry in this country for a very, very long time. That's why you run up into this. But there was another element in your question that was interesting, which is

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are costs coming down knowing that some of the work goes outside the company and are we not paying too much for contractors.

5 It is a very important question you're asking and there is absolutely in our view the need to make sure that we bring the cost trend back in line with where the revenues are. All the measures we're taking are to bring down the cost base to a point where you have a certain variable element of costs kicking in for a variable element of revenues kicking in. That's where we're driving towards. So we will push this quite hard, i.e. we will push the cost base down quite hard.

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15 Q: We're seeing a lot in the media at the moment concerning an alliance which Austar is fashioning. Because there are technological issues involved, could you just explain what the nature of the challenge is and then how you propose to meet it?

20 MR ROBBIATI: I'm not a believer in alliances in telecoms, I'm really not. Let me be very clear about this. If you really look back at the history of the industry there is always a very nice news flow emerging from an announcement, an alliance, et cetera. But at the end of the day, the proof is in the pudding and it's really about what investment goes in, what services will be provided, how can the various members of the alliance differentiate among themselves. When you hit the differentiation point what happens is that you realise that this isn't much differentiation, that players feel constrained by the alliance more than anything else and that therefore they want to be free to invest on their own to achieve their own returns and be able to differentiate and compete properly.

30 So that's why every time I hear anything about an alliance I take this with a pinch of salt. There are names that were very familiar to us, Unisource in Europe, large alliances at the time of BT in the 90s. All of these have disappeared. Again compete with your own means, invest in your own infrastructure and differentiate; that is the name of the game.

35 FACILITATOR: Tarek has been very generous with his time and his question and answers. We're probably approaching the close of proceedings. We might have time for about three more questions and then we'll probably wrap it up.

40 Q: (Indistinct)

45 MR ROBBIATI: I hope you heard the question, it's an important one. It says any company who loses statistically 22 per cent of its employee base stands to lose a lot of knowledge and what are you doing to counter that. You obviously have to develop new knowledge is the short answer to your question. This is what the transformation is about. If you are taking out network elements, you're reducing mobile networks from three to one, if you are also simplifying the IT systems to the extent we mentioned, then all the processes, all the work practices will have to be redesigned. We are investing

in this big time. It's part of the cost of transformation. On top of that we are also making sure that we are investing in our field force to make sure that they are equipped in knowledge, equipped in tools to be able to do their jobs on a day-to-day basis. The knowledge shift is just going to be important. Things that are done today in certain ways will not be done tomorrow. That's what we have to keep in mind.

Q: (Indistinct)

MR ROBBIATI: Sir, I would love to have many discussions with my mother, but unfortunately she passed away 10 years ago. So it's a bit difficult. But let me just give you an analyst's perspective about this. When I was an analyst I was asked exactly the same question; would you invest in shares you're having a bi-rating on or would you not. It's a case of damn if you do it and damned if you don't – pardon me the expression – because if you don't invest, then people retort to you you're not putting your money where your mouth is. If you do, you're accused of conflict of interest. So from my perspective, I just simply steer away from this. I'm not investing in any of the shares of my employer, I don't think it's appropriate. Simply just as a matter of principle I've learned the lesson six years ago and I stick to what I've learned.

Q: (Indistinct)

MR ROBBIATI: Two questions on your side. The first one is, is it wireless or FTTN, basically one or the other. That was the first part of the question. The second question is, what is the node? Don't forget that we will want to push solutions that are platform-independent. So it's not one or the other. It could be both in some cases and it could be just one in one case, depending on what the customers truly want. So it's not – there is no offsetting and hedging between investments in platforms. Both provide different services that can be integrated and that provide value to customers. The second part of your question is, what is a node? The best way I can picture this for you is the green street cabinets that you're used to here in Australia. It's very familiar in Europe as well, is when you walk past a street corner you will find a green cabinet that has a number on it that says "dial 133-something" if you think that there is a problem with the apparatus.

So what it means, fibre to the node, is that the fibre in theory gets down to that point. That's what we refer to the node, and it's servicing an area which is around the perimeter, approximately one half, 2 kilometres around the perimeter of that green street cabinet that you can refer to.

Q: (Indistinct)

MR ROBBIATI: No. The question was, do you have coaxial cable going from the node to your house. No, we will not put coaxial cable from the node to your house because since you brought the fibre close to the customer premises the rest of the distance can be covered with copper and what is

known as being ADSL IPD slams. So that's the architecture you're going to have.

Q: (Indistinct)

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MR ROBBIATI: No, I'm not saying that we have reached agreement. I think that the discussions are progressing, they're progressing well. You know, in those circumstances it's never done until it's done. There is no way you can predict how long it will take I'm afraid.

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FACILITATOR: Just one more question down the front here.

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Q: Just to return to the voiceover IP, I understand British telecom is going entirely over to the Internet. It surprised me that you hadn't included that in your suite of offerings that you have here.

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MR ROBBIATI: We can start a very long debate about British telecom because I've lived in the UK for 15 years and I could tell you everything about them having scrutinised the company at length. I think they are at a cross-roads. The company itself it at cross-roads. One thing that people tend to forget is how much of BT depends on wholesale revenue. If you look into analysts' reports you will see that more than 60 per cent of BT's value is in wholesale. That value is coming down very, very fast. So they don't have much choice. They are pushing and building an NGN network but I think from my perspective, having seen how the market has evolved, this has been done way too late. They are thinking about their 21 century network maybe five years behind schedule. I'm not saying it is five years behind schedule, I'm saying their thinking is five years behind when it should have been relative to where the market maturity is.

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They don't have much choice given where they stand today and the vulnerability of the business to push voiceover IP. But, by the way, we're not saying we're not pushing voiceover IP, I never said that. We are building an IP core precisely because we know it's coming. We will be ready for it. All I'm saying is don't think that voiceover IP is the panacea and that will provide the ultimate solution from a customer standpoint. It is just one product, one feature, albeit important, that will be part of the future, but not the whole future.

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FACILITATOR: Many, many thanks. That's probably the most generous Q and A time we've ever had at investor hour. So I'd like to thank you for your endurance there. If everyone could put their hands together for our guest speaker today.

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MR ROBBIATI: Thank you very much.