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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2006 Results Media Briefing

In accordance with the listing rules, I attach a copy of the transcript from today's Full Year 2006 Results media briefing for release to the market.

Yours sincerely

Douglas Gration
Company Secretary

TELSTRA CORPORATION LIMITED
FY 2006 RESULTS
THURSDAY 10 AUGUST 2006

MEDIA BRIEFING

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SOL TRUJILLO: I will try to be brief in terms of my comments. Some of you perhaps had a chance to sit through the first session. What we are doing today is announcing our results and results for first half or first full year and second half results, trying to give you some colour, if you will, or some detail in terms of what's behind the numbers.

First of all we came out with EBIT results of $5.5 billion. Those of you that have been covering Telstra, you know that we gave guidance of a decline in terms of our EBIT numbers of 21 to 26 per cent. We came in at 20.7 per cent, which basically says that we are in line with guidance. In terms of our underlying numbers, when you think about the total number, it includes a lot of our transformation costs, it includes the acceleration and depreciation, it includes things like the cost for redundancies and when you strip some of those out, the underlying performance decline goes to 6.9 per cent, where we had underlying performance of $6.46 billion. To use the comparable number there, we gave guidance of 7 to 10 per cent in terms of decline. So, we have come in essentially slightly below our guidance relative to the bottom line type of numbers.

But, when we talk about transformation and when you talk about Telstra, if you want to really understand, and I am going to emphasise, if your interest is understanding transformation of Telstra, you have to look then about the driver numbers and you have to look at what really is important as you think about the future of Telstra and the first thing you have to look at is essentially growth. The biggest problem Telstra has had is that it has declining revenues, it has a core part of its revenue stream PSTN that is in significant decline, it is a significant part of the business and the question is: Are we turning that around?

If you look at the second half versus first half, and just as a quick reminder first half we announced our results in February, we had just had our strategy session in November, so second half we had a chance to begin implementation of our new strategy for Telstra.

In the case of mobiles, we had strong second half growth of 7.6 per cent, with improved offerings and customer segmentation driving a lot of what we were doing there. In terms of total revenue growth, we came in at 6.1 per cent and our revenue base now is at about $4.97 billion.

But the key story underneath that is really about where is mobile revenue growth going? What is the game that we, Telstra, need to win? And that really is about 3G because the key for me, as I think about winning and I think about growing this business and when I think about creating shareholder value, it is about where customers are going to be focused, where they are going to spend more, where they are going to use more, where they are going to have more functionality delivered to them and that is about 3G. And in the case of 3G, we grew our 3G base significantly and, most importantly, we are focused on that 3G base where our ARPUs, our average revenue per user, is now about $20 higher per month than those on 2G post-pay.

In the case of broadband, our market share continues to grow. We are up 3 per cent for the year. We added retail customers at the rate of three to one of our nearest competitor. So we have a better value proposition, we have a better delivery system and our customers are voting with their wallets.

In the case of Sensis, we have had a strong performance with Sensis as well. In the case of our total year revenues they were up 6.9 per cent, but second half revenues were up over 9 per cent. Our on-line revenue growth, so if you think about Sensis, half of it, if you think about the business, part of it is print and the other part is our on-line services and how we think about growing in the new digital, new media world, and for the first time in the history of Sensis, our absolute revenue growth for on-line has now exceeded the growth for print. Again, another significant accomplishment in terms of how we think about repositioning and the transition of this company.

But we don't stop there because another key platform for us in the enterprise base when you think about business customers, in particular, our IP services revenues grew 34 per cent, where now they account for almost $500 million in terms of our revenue streams in the business and they are growing aggressively and I can tell you that again David Thodey and Deena Shiff, who run our businesses part of the business, they are very focused in terms of what we are going to be able to do there.

So, as you look at the business, we have in fact accelerated revenue growth H2 versus H1, which is to me a sign of health, it is a health metric as I look at the business. But I don't want to stop there because transformation is about re-accelerating, re-energising the business, but maybe more importantly in the near term is how do we take costs out of the business? How do we restructure this business so that when we think about creating shareholder value, which is what we are all about, it is about taking out costs. How do you think about costs?

Part of a company like Telstra is we have a lot of full-time equivalent people working in this business, whether it be directly, part-time, contracted, whatever it might be. In this case, in the year we have taken out about 3,800 full-time equivalent heads in terms of the business. We have done that with the sole purpose and sole focus and sole criteria around removing non-value add work out of the business. That is the primary purpose. So that again we can take that money and reinvest it for the things that are important as we look at transforming the business.

So, we have done that, we have actually stopped 800 projects, saving about $500 million in capex and we have also cut a lot of costs out of our business through many different ways, which has now reduced our opex spend by about $157 million, so it is about tough management, we talked about tough medicine, we talked about tough processes that we are now putting in place, whether it be procurement, whether it be productivity management, whether it be performance-based management, or any of the kinds of things that we talked about back in November.

So, the punchline here is that our transformation is on or ahead of plan on virtually all fronts and we are gaining momentum.

One other thing that's important, though, as we think about revenues and as we think about costs and as we think about the things that we are doing in terms of laying new networks, building new IT systems and platforms, is that what about the customer? Where's the customer in the mix here? And what has happened to service because, with a transformation like this you can lose focus, you can get too focused on the technology, focused on too many other things, and if you look at our results again over the last reporting period, our results, our service results for Telstra, are the best that they have ever been, period. End of story. So, a lot of momentum, a lot of good work by the people that are running this business, every day.

In terms of other activities relative to our transformation, our wireless network is basically ahead of schedule. It is more than 75 per cent complete. We made a commitment to the market that last November we said we would build this wireless HSDPA 3G 850 network in a year and that we would be able to turn it up by the beginning of '07. At that point of time nobody believed it was possible, because nobody has ever built a network of this magnitude, this size, anywhere in the world in that timeframe.

We are on schedule, slightly ahead of schedule, and it is our intent to meet that commitment. We also said that we would build out this wireline IP, MPLS core network over the next few years, so that we could in fact have this capability to serve our business customers in the new and unique ways that are way beyond what our competitors or even we have today. We're about 60 per cent of the way down in terms of building out our sites. So we're serving customers today but we're going to have even greater capability tomorrow.

The third dimension about transformation is about how do we get Telstra to start operating differently and innovating and leading the market in many different ways. I talked in particular about our integration strategy, of enabling customers to use multiple capabilities across our Telstra portfolio of companies in simple, easy to use ways; one click, one touch, one button, one screen, one call, one whatever. We've started that migration. We're not done, we're started. But you saw some of it in terms of what we delivered in the Commonwealth Games. When we roll out our 3G HSDPA network at the beginning of next year you're going to see a lot of capability brought that really brings to life this capability, in addition to what we're doing today with BigPond and mobiles and other things in terms of our business. So we are innovating, but only beginning.

We also talked about, as part of our transformation, the core implementation of market-based management, which is a core principle about transforming this business where the customer is really at the centre of our business. We have now begun that implementation. We are now seeing the results of it in terms of our service delivery, improved revenue growth, and also, then, the other core metric that anybody that operates one of these businesses looks at all the time, which is churn. Is our churn also reducing? And I can tell you today, in terms of our results, our churn is reducing significantly.

The case of IT, our information technology, the systems that essentially drive everything that we're doing in the business today, they are on, or ahead of plan on virtually all fronts. They're about enabling capabilities, so that on the front end, when a customer deals with one of our people, we're going to make it simpler, easier, faster, better, more consultative, and if you're dealing on the back end of our business, in terms of the delivery processes we're going to make it simpler, easier, faster, better, and in every case lower cost in terms of how we deliver. So that is critical for us.

What we also announced this morning was that in terms of our outlook, our guidance for the coming year, is that we would continue to look for revenue growth in the 2 to 2.5 per cent range. We'd look at EBIT growth of 4 to 6 per cent, with underlying EBIT flat to minus 2 per cent. The level of future dividends will be subject to regulatory outcomes and will be considered by the board at whatever the appropriate time is, if there is a need to address that issue.

So as we look at this business, the last thing that I would just say is that we're now, essentially, seven or eight months into our transformation. This coming year will be the peak year for our spend. So our guidance is reflective of additional spend, we will spend more Opex, operating expense, we'll spend more Capex, our capital expense, than any year in the history. So you will see these kinds of numbers, in terms of growth, that are constrained by additional investment. There will have been no company, at least that I'm aware of in the history of this country, that will have invested for the future like Telstra is doing. That's a commitment that the board of directors of Telstra have made, because fixing this company, transforming this company from a good company to a world-class company is not something you do in one quarter, it's not something you do in one year, it's something that you have to do in a fundamental transformational way, and that's what we are. That's the commitment that the board of directors of Telstra have made to all of its shareholders. So with that, I will stop and open it up for questions.

QUESTION: John Durie. Sol, three questions, one of a general nature, two, just housekeeping. Firstly, I'm sort of a little bit confused. Today we got a very upbeat message in terms of the future for Telstra and in terms of the FTTN decision - I think you said words to the effect of that it was disappointing but you're happy to go with the flow. I was wondering whether you could explain - I didn't understand the rationale for what happened earlier in the week, where, you know, you sort of hit the megaphone 50 times volume to make the issue a big political issue, when today the message is directly contrary to what was put out earlier in the week?

SOL TRUJILLO: Okay. John, number one, I don't think I said I was happy to go with the flow. I said we will deal with whatever we need to deal with. From an operating standpoint, as we said back in November of last year, we had this asterisk on whether we were going to do Fibre To The Node or not, it was going to be subject to all the regulatory settings, and as it's turned out, the regulatory settings aren't appropriate for making that additional investment. So that's done. I spend my time on the business, trying to run the business to compete and to win and to create shareholder value, ultimately. That's what we've been doing. So in terms of what we're doing is, we're focusing on that. This week, what Phil Burgess was doing was basically informing the market that we had reached a stalemate. That was as simple as that. Now, how all of you choose to cover it, how you like to cover it, how you like to, you know, deal with that, that's not something we create. But it's something that we thought was important in terms of sharing the information, and, mostly importantly, why there was no solution to what we thought would be a great promising capability for Australia.

QUESTION: Just to follow, I mean he said we're now - we're now just had to go track broadband, we're destined for Third World status on broadband, and yet today you were telling us that you can deliver 17 megabits already and there is a lot of exciting alternatives. So it's directly contrasting.

SOL TRUJILLO: Well, no, let me, again, John, make sure you have the facts, so that when you make statements like that you're always using factual context. The key here is that when I talk about our HFC network, it's built in five cities, not 20 cities, not 18 cities, so it's not reaching out beyond the five cities. When you look at the footprints of our competitors or where we might be placing our DSL 2 plus, it tends to be in those places where there is clusters, where there is density of people. The only solution that's coming, John, that will be an opportunity to solve what I would call beyond the normal economic interest, is really going to be with our wireless broadband solution. That becomes very important and do I have hopes for it? The answer is yes. The simple answer is yes because there is no regulation there, right. It's, you know, wireless is, you know, for Optus, for Vodafone, for 3, for us, for everybody, is an unregulated business, so you're only as good as you can be. That's a good thing because we will be better than our competitors, and we also think about all Australians, not just some.

QUESTION: Just two quick housekeeping. First, I think John Stanhope said that PSTN revenue is about a third of your base now. Just as a point of your reference, could you tell us how much that was, say, two years ago, three years ago? Secondly, would it be possible to get a figure of the total cost of acquisition costs for new customers in the last half, please?

SOL TRUJILLO: Okay. John, I'm going to, because I don't have history here, I'll ask John Stanhope to help with that answer, okay.

JOHN STANHOPE: John, about three years ago it would have been about 40 per cent. PSTN revenue would have been about 40 per cent. What was the other part of your question, I'm sorry?

QUESTION: Customer acquisition costs.

JOHN STANHOPE: For?

QUESTION: Well, for mobiles?

JOHN STANHOPE: For mobiles? The average customer acquisition cost was about $134. As I said earlier, it did go up in the last quarter in particular because we have a very strong marketing campaign going on, particularly around 3G. Because 3G, as Sol has said, is very important to us to lead and win in that market.

QUESTION: How much would it have been in the last quarter, John?

JOHN STANHOPE: Sorry?

QUESTION: How much in the last quarter?

JOHN STANHOPE: Last quarter was about $178, and that's brought the average up. But, as I said, that was because of a very focused 3G campaign in the last quarter.

QUESTION: Jessie (indistinct). Sol, you've already got an ADSL2 footprint that's bigger than all your rivals. Why not turn it on straight away?

SOL TRUJILLO: Well, Jessie, we're waiting to see what the regulator is thinking, doing, ultimately going to decide in terms of how we choose whichever directions that we take. The good news is that we do have options and the good news is, we will explore whatever, and exploit, whatever options that we have. As I said earlier today, I'm not going to give specifics today about what we're going to do, when we're going to do it, because my job is not to educate our competitors, my job is to beat our competitors, and that's what we intend to do.

QUESTION: You said when you'd be coming back here this time next year you will have regained the lead, or taken the lead in 3G. Is that sort of forecasting a price war against 3?

SOL TRUJILLO: We're not into price wars. What you're going to see over the next year is a value proposition, an offer, a capability, a set of services that are way beyond anything anybody else can do in Australia, because our shareholders are making an investment to offer services on this wireless capability like no others. So we're risking capital, yes, we are risking capital, we're making an investment, but it's to be better in the marketplace, with no regulators trying to decide who wins and who loses, we'll let the customers decide who wins and who loses.

QUESTION: So it's not just a matter of call prices or handset subsidies?

SOL TRUJILLO: Well, you know, we will do what we need to do in the market. Clearly if you look at what David has done the market or what Dana is doing in the market, it's nowhere near what our competitors are doing because we are the market leader, we have better quality, we have better coverage, we have better service and we're going to exploit that even further with more capabilities that it will bring.

QUESTION: Michael Sainsbury of The Australian. Couple of questions. The first question is on ULL; you've got $22 in the results. If it comes in at 17 or 18, which is where a lot of the market thinks it's going to come in, there was a report this week that that's where it is, what effect does that have on your outlook? The second question is about the segments. Some of the EBIT falls in the consumer business and enterprise and government are pretty steep. Can you give us some sort of commentary around where you see those different segments going and what effect another rise in interest rates and a general downturn in economic conditions might have on your businesses?

SOL TRUJILLO: In terms of the ULL question, you know, there has been a lot of speculation. I don't plan, you know, on a speculative basis in terms of what it means. Obviously, mathematically, the way that we would calculate what the impact is, is you take the current base of customers that are paying whatever they're paying today, look at the delta between the two, multiply it times the volume and you'd say that's the first calculation. The second part of the calculation is what happens with our competitors and how will it stimulate their deployments and what is your forecast of what their growth might be and what kind of market share they'll take. Some of that gets into speculation. The other part of it is, is where are they deploying? Because one of the interesting questions for me always is, when I get briefed on what others are doing, is to see what they're telling the financial community. If you add them all up, in terms of where they're deploying and the market that they're looking at, they all tend to be in the same place. There is only so many customers in every place and you can probably add up to about 500 per cent of market in terms of what the forecasts are. So when we look at that, we have to factor in a lot of numbers and a lot of stages to come out with the calculations. Right now we're not spending a lot of time on that kind of thing because we're spending our time getting our business running, doing the things that we know we need to do, the things that we can control. We've been driving since November and now you get a first glance at it with H2 results, and there is a lot more coming in H1 of this year and H2 of this year and the following years after that. The second part of your question?

QUESTION: It was on the different segments, and I think it's the first time you reported those and I think that's a good thing. Just that some of the drops in EBIT for the different businesses and how that's going to pan out over the next year, according to the different segments you've got there. And whether any further downturn in economic conditions, you know, rise in interest rates, you know, higher petrol prices is going to have an effect? How much does that affect your business these days?

SOL TRUJILLO: Well obviously we're affected by the same variables that everybody else is. So if the economy is tough in New South Wales versus Western Australia, we do see the differences in terms of purchase behaviour and all that. So that's factored into some of our guidance. We have our economists on board that help us think about those as we do our planning.

In terms of how we are competing, and if you look at it segment by segment, obviously I think you have seen a pretty significant revitalisation of our consumer segment here in H2. I think that's terrific. I think you saw, earlier last year, some revitalisation in terms of what we're calling internally our 'Telstra business segment', which is our small and medium enterprises, as we try to define them. Obviously David Thodey, in terms of the enterprise side of the business, for the first time in several years now we've broken into positive growth at the top line in terms of our enterprise business. So all of that is good. Do I expect more? Absolutely. If you talk to anybody that's on my team, there is no such thing as doing less next year than you did the prior year. So we are focused on that and we are going to continue to grow in each of those sectors.

QUESTION: Jennifer Hewitt. You talked a lot today about shareholder value. Obviously one of the things that people are looking at, potential shareholders as well in terms of T3, is the dividend policy. Don't you think it would help shareholders if you gave them a little bit more certainty as the government decides what it's going to do with T3?

SOL TRUJILLO: Well, Jennifer, I agree with you. I think that certainty is a good thing. If I had all my variables that were certain that would drive it and the board had all those variables certain, we could give more guidance. The problem is, a core part of our mix in this kind of business, and this is unique to Telstra because our competitors aren't regulated the same way, is that we have this confusion right now, or uncertainty, relative to what's going to happen with the unbundled local loop pricing. So until we know what it is, you know, the board really can't deal with that, until they know what the facts are. So I agree, I mean certainty is a good thing, we've been saying this now for a year, we'd like to see to see certainty. That's why we had a lot of work put into it over the last six months, with Phil and others trying to work that issue. But we're not there yet. So when it happens, if there are changes, we will deal with it.

QUESTION: One other point. A lot of your competitors complain that you make life more difficult for them, that you kind of increase the delays, you don't make it easy for them to put in their own DSLAMS, things like that, and you're deliberately doing that. Do you have a comment on that?

SOL TRUJILLO: That is absolutely incorrect in the aggregate. There may be an instance or two where there has been something that might have happened. But we get forecasts. We have a contractual set of relationships with these customers that have to give us forecasts because we don't just deal with demand as it pops up. In every case they tend to miss their forecasts because they always are more optimistic and then they don't show up for the work and we can't incur the costs just on speculation. So what we've been trying to do is work with them on getting tighter processes and getting more accountabilities. So we deliver when we make commitments and they live with those forecasts that they make, because we incur costs every time that that happens. So, you know, Kate McKenzie, who is sitting over here, she's working hard at trying to improve that process because we do want to serve them well. We do want to serve them well, but we're going to serve them as cost effectively as we serve our other customers inside this business. We don't just go build on speculation; we do work with real work and then when customers are willing to pay.

QUESTION: Just one last point. The FTTN cable, the service, was only going to go to the five major capital cities anyway. I'm not quite sure how that fits with you now saying you've got plenty of alternatives, and also that it was really - Phil seemed to suggest that, on its own merits, it was a rational investment, but it just didn't - that the cross-subsidy for the bush was the real issue?

SOL TRUJILLO: I guess we're mixing two things here, so let me make sure I understand your question. In the case of FTTN, would I like to build out FTTN? The answer is absolutely yes. Did I say this morning that we wouldn't like to do that? No, I didn't say that. What I said is, is that we have all the capabilities that we need to compete effectively in the marketplace to grow and to take share. Could we grow more by extending capabilities out further beyond the five major markets and some of the dense locations here in Australia? The answer is yes. But the regulatory settings, as they are, will enable us, enforce us, into competing where our competitors invest, and we will do that in the interests of our shareholders. Now, in the case of what Phil has said earlier this week, we're trying to find a way to balance this issue that's a policy issue here in Australia, which we support, which is that retail, there was a great desire by the Parliament, by the government, to have one price available to everybody, which, in a country like Australia, we didn't disagree with, we didn't criticise, we actually supported because that is good policy. What the breakdown is, is when you want to go off of that in a wholesale construct, to say, "Well we need to deaverage, even though we're averaging at retail," which then drives this difference and the disparity in terms of costs. Well then how do you deal with the costs? Because the costs of serving outside of your core metro areas is dramatically higher and somebody has got to cover that. That's why at retail people wanted one average retail price and that's why we argue that at wholesale you have to have the same principle and you have to include all the costs. So as a business person I stand here today, on behalf of our shareholders, to say we will do those things that make economic sense for our shareholders because we can earn competitive returns. Those things where people want us to lose money on and to actually do a wealth transfer from Australian shareholders to Singaporean shareholders, we won't support it. We won't do that.

QUESTION: Alan Kohler. Sol, a couple of questions, I'll do them one at a time. But I just wonder if you are prepared, or able, to tell us how much you're actually losing in the bush? Phil said the other day there is a million lines in the bush, 9 million lines in the city. What Phil said on the call the other day was that the surcharge that was required on the city lines, to pay for the bush loss, was $13.63. I guess we can all do a sum and figure out what that means. Can you actually tell us what you're losing in the bush?

SOL TRUJILLO: Alan, I actually can't give you a number because we would have to do some sit down go and through a whole series of assumptions and calculations. But I can tell you that what Phil shared, I think, with all of you was this notion that says when you the calculations using the models that both ACMA and the regulators and everybody here, prior to my arrival, were using, you'd come out with costs that, say, were somewhere in the 1.8, $1.7 billion range of just costs that have to be covered every year. But I'll tell you as an operator: If you think about the fact that you may have two or 300,000 customers that are really what I would call bush-served customers, and if you made an assumption that said the average cost to serve them per loop might be anywhere between $20,000 per loop and $100,000 on average, you can do the maths. You're talking about multiple billions of dollars of invested capital. Then you can divide it by 12 and you can divide it by a price, spread it across, you know, eight or 10 million customers and say how much should you recover every month just to cover those invested costs in terms of the business. I'm not trying to create a new costs model right here, I'm just trying to say, logically, we spend that money.

QUESTION: Is what you're saying, you want that cost to be made transparent?

SOL TRUJILLO: Well what we're saying is, if you want to have an averaging retail policy, you should have averaging at wholesale, you include all the costs. You don't pretend that those costs aren't there. That's been, you know, the magic pudding here. I mean, there is no magic pudding, the costs are real, we write cheques every day. The interesting thing about all of this is that if you look over the last five years, we have actually put in another 5 million kilometres of copper just over the last five years, copper pairs. So if you look at that and you look at how much copper has increased, if you look - and that's gone up three times. If you look at fuel, which all of us pay, and look at it going up four or five or whatever times it's been in the last five years, if you look at the costs of labour, if you look at every cost variable in terms of how we do all this, none of that has gone down, it's gone up anywhere between 20 to 50 per cent, depending upon the variable. So if anybody tells me that our costs are going down, therefore prices should go down, they do not understand business, how you run a business.

QUESTION: Can I just ask another one? Michael Sainsbury asked before about ULL pricing and he talked about the fact that there is a suggestion that it's going to be $17.70 in band 2, and you said, "Well, you know, who knows?" And that's fair enough. Can you tell us what you're actually charging now, the wholesale customers, on average? Without giving individual customer information, what are you charging wholesale customers for ULL now?

SOL TRUJILLO: We're basically, on average, charging around $22 today, based on old contracts, old methodologies that were here two years ago, three years ago, whenever the contracts were entered into.

QUESTION: Emma Connors here from The Financial Review. I'm just - can you hear me?

SOL TRUJILLO: Yes, yes.

QUESTION: I'm just interested in your views on R&D. In the last year there has been quite a few jobs gone from what was the old Telstra research labs. I'm just wondering what level of R&D you think you need to maintain to remain an informed buyer of new technology?

SOL TRUJILLO: Again, I won't talk about a number, but I will tell you what we have decided as important in the business - and we have Hugh Bradlow sitting here in the audience. Telstra can never match the investment of a SISCO, of an Alcatel, of a Lucent, of a Siemens, or any of the other major manufacturers of equipment and services. So what we have done is not tried to outspend them in terms of inventing things that they will be much better at inventing, but what we have done is we've said what we want to be the best in the world at is applying technology and enabling the services that our customers can use and, based upon the research that we've done, will want and are willing to pay for. Notice I say willing to pay for it, in terms of how we're thinking about it as a business. So again you're going to see, now, a lot of work that's under way, under Hugh's leadership, who works with Greg in terms of our network and technology part of the business, that we will continue to innovate. You're going to see some capabilities that we'll be making public here in a short period of time, relative to how we're doing that, how we're taking our technology to the next level and how we're going to bring to Australia what I would call world-class, best in the world capabilities. Because it will enable us to drive revenues, it will enable us to introduce products and services and it will enable us to drive costs out of our business.

QUESTION: One more quick question on the IT side. The press release talks about a new contract with IBM, it's going to save $250 million. I'm just wondering what the total value of that contract is?

SOL TRUJILLO: Off the top of my head I can't tell you. Maybe we can follow up with you later.

QUESTION: Okay, thanks.

QUESTION: Would it be fair to say that T3 is, effectively, dead in the water if we have no clarity over the dividend policy?

SOL TRUJILLO: I'm sorry, can you repeat that?

QUESTION: I am just asking is it fair for to us as that, given there is little clarity over the dividend policy, that T3 is effectively dead?

SOL TRUJILLO: I am not quite understanding what the question is.

QUESTION: The question is there seems to be a lack of clarity over the dividend policy. I mean where does that leave the government if it wants to sell its stake in Telstra?

SOL TRUJILLO: I think there is kind of a value chain here in terms of a series of events, that we all would like clarity. You are talking of the first person that said clarity is absolutely critical. I have been saying that for a year, so what we want to do is try to get clarity. Hopefully through the regulatory processes we can get clarity and then we have clarity as a business in terms of what the implications of decisions are, which then leads to any necessary decisions that we need to take, whether they happen or not, whether there is any change or not, to be made and then ultimately that allows T3 to have more clarity in terms of their processes and, you know, it's a chain of events and I can't control the beginning points.

QUESTION: Lyndle McFarlane, Dow Jones. You have been travelling a lot overseas in your past year. I am just wondering - you have obviously met with a couple of large international funds in that time. Just wondering what the feedback has been like from those funds in interest in Telstra and T3 shares?

SOL TRUJILLO: I have probably had, I don't know, somewhere between 30 and 40 total meetings with various funds and individuals and the common theme is that, one, people are interested in this transformation. Most of them got out of the stock probably two to three years ago and they are now intrigued because they are intrigued by the transformation. However, consistently across the board, everybody says "But the reason why I got out two or three years ago was because of the regulatory climate, so what's happening now? What's the update?"

You know, the update is basically, as you and I know today, we don't know yet, and so that leads to some of this uncertainty that is there. People are concerned and, as investors, the one thing that is clear is that you want to know what kind of returns you can earn on whatever investments that are being made in that company and you want to know that they are predictable returns to the extent that you can.

Clearly there is variables in running a company that they understand; competition, how well management does, competing with those that they compete with, technology changes and all that, but that's what management controls. The piece that they like to get updates on is basically, as it relates to Australia probably in particular, is relative to this regulatory certainty, which I think the government has talked about, those who have been managing the T3 process as well as Telstra, so the good news is that there is not a lot of disagreement on that point and the bad news is we don't have the clarity yet.

QUESTION: Just following up that last question, you are saying T3 would actually be a very hard sell for you at the moment.

SOL TRUJILLO: No, I didn't say that.

QUESTION: But the implication is that, with the regulatory uncertainty, foreign investors won't be interested. They might be intrigued, but they wouldn't buy.

SOL TRUJILLO: What I said is that, if you are an investor, think about yourself. As you make choices there are certain variables that drive your investing decision. Can you get clarity or are you comfortable with unclarity if there is enough offsetting factors that allow you to look at this issue in total?

One of the important things that I do talk about is the fact that, when people want to focus on fibre to the node and if that doesn't happen, does your strategy end? The answer is it is a piece of our strategy, but it is not the strategy. Our strategy is around transformation. I articulated earlier, it is clear; fibre to the node is just a piece.

QUESTION: Just following on that, it seems as though you are getting strong revenue growth, strong gains in market share but at the cost of your profit margins which are shrinking at a fairly rapid rate by industry standards. So, could you just explain when is the turning point, when is the average retail, the 1.6 million mums and dads, going to know Telstra will start to improve its profits and maybe pay higher dividends. Is it 2009?

SOL TRUJILLO: I will answer part of your question which is about what to tell everyone and the story is no different than what we said last November. We were real clear that this is a five year transformation plan, number one. Number two, it is about rebuilding our networks, rebuilding our IT infrastructure, rebuilding the whole innovation and go to market systems and capabilities in this business and it would not be done in one year, one quarter or one month. So, what we did say is that this year '05/'06 would be the beginning of spend, because obviously H2 is when we began triggering it. What we said was '06/'07 would be the peak year in terms of spend, so margins obviously would go down. Mathematically, anybody that has basic maths would understand margins are going to do down. Why? Because we are spending more. It is no great mystery and it is no great issue at this stage; it is part of a plan.

So, in terms of the final part of your question, is if you look at when does that start changing. You start looking at reduction in opex spending, capex spending in the '07'/08 periods, accelerating in '08/'09 and then obviously '09/'10 you will start seeing all the fruits of all turn_ups, of all the networks, of all the systems, of all the capabilities and that's no different than what we said back in November. And what we are here today trying to do is just bring more clarity because now people have had a chance to see the first half year of implementation. And is it taking effect? The answer is yes.

QUESTION: Just finally, I believe broadband is not declared yet. Are you concerned that it might be declared by the ACCC, just given the history of what's going on?

SOL TRUJILLO: You know, again I don't know because there is, I don't know how many players, 20, 30 players that provide broadband. There is 700 plus ISPs. I am sure they would love to be regulated like we are.

QUESTION: Ross Greenwood, Nine network. Just in terms of the comments that you have made about the capex and also the dividend, just looking at the cashflow statement now, clearly you are in a negative cashflow situation as the spend rises. In fact, the net cashflow outflow is almost equal to the rise in the dividend this year. Though you are seeking clarity from the competition regulator, would it not be unreasonable to suggest that the dividend would still be in question, despite the clarity that you are seeking, because of the cashflow, the negative cashflow situation you are likely to confront over the coming years?

SOL TRUJILLO: Obviously there is a lot of considerations in terms of when you look at dividend policy and you look at moments in time, right? In the case of what we are doing today, if you look at our transformation, our transformation is very predictable. There is no mystery in the numbers that you are seeing today, other than good performance. There is not going to be any mystery that it is going to start getting better in terms of opex spend and capex spend two years out and that there will be improved cashflow generated in this business and it materially gets better the year after and the year after. So it is predictable and most of our spend tends to be one time, one time in the sense that it is over a couple, two and a half years in terms of the majority chunk.

What's not predictable is what regulatory outcomes are, how pricing goes, what are the terms and conditions that go with it and how much more is there in terms of what you look at. That's been the biggest variable here for Telstra for a number of years and so I guess, Ross, what I'm saying is that the board, we had a board meeting yesterday, we made a decision around the dividend for the last reporting period and that's the information the board has which is what our plan is. They know how much we are going to spend, they know when the spending stops and therefore they are comfortable with the dividend as we have declared it for this period and they will deal with the next dividend declaration at the appropriate point in time.

QUESTION: So, therefore, because of the lack of clarity, you can understand the nervousness surrounding the share price while there is also nervousness surrounding the dividend policy?

SOL TRUJILLO: Ross, there is nothing more that I want to see happen than our shareholders get the value creation that we are going to create in this business. I want to see it reflected in share price. I want to see it reflected in all the ways that we can deliver value to them. But we have to go through some of these steps before we can start proposing and declaring and making decisions without some of the facts yet to be done. We still have to deliver more, right? I mean we have had a good last six months in terms of our beginning implementation, but this management team, including yours truly, we still have more to deliver in terms of what we have to do and I'm serious about that. We are working hard every day to make sure we hit the numbers and the board needs to see more, they have to have more data, more information. So that's why boards, not just Telstra board, but most boards, they will always convene, assess where the conditions of the business are and declare policy based on what they know.

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