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Office of the Company Secretary

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript of presentations at the Telstra Investor Day

In accordance with the listing rules, I attach a copy of the transcript of the presentations at Telstra's Investor Day 6 November 2008, for release to the market.

Regards

A handwritten signature in black ink, appearing to read 'Carmel Mulhern'.

Carmel Mulhern
Company Secretary

TELSTRA INVESTOR DAY 6 NOVEMBER 2008

SOL TRUJILLO: Good morning, everybody. I am excited
5 about today because we get to talk some more about our
company, and some of the progress, and some of the
things that have been going on in the business that are
obviously consistent with everything that we said three
10 years ago, consistent with two years ago, consistent
with a year ago. But there's an agenda here that I have
in mind and it's really around, one, giving you
information, two, trying to clarify perhaps some
questions, some issues, that are always revolving around
15 a business like ours, and given some of the road shows,
some of the other conversations that we have. And the
third objective is basically to provide some
understanding.

Our strategy has been very clear. But you know we think
20 that it's always important to continue to talk about it
so that people do understand what a value-based strategy
means, what differentiation really does look like, and
now seeing it played out in the marketplace and how
we're going to continue that. Because what we have done
25 so far is just the beginning in terms of how I think
about this company called Telstra.

I'd like to just emphasise the fact that I think - you
saw our results at full year back in August. You saw
30 that our strategy and our business model is working.
You see the differentiation, it's reflected in the
results, you've seen relative performance in terms of
how we're performing against others in the marketplace
today, and I'm here today to say simply it's going to
35 continue. We are changing the game, we will continue to
change the game because there's more behind our strategy
than what you've seen so far.

Behind everything, though, that we have done so far,
40 it's all about execution. So today again you get a
chance to hear the management team talk about what we
have been doing and how we've been doing it, and also
maybe a little bit of a preview of what we're going to
be doing going forward.

45 Now when we talk about our strategy and we talk about
the differentiation, we talk about the value-based
driven approach that we have, again everything gets tied
to a whole series of work, a framework around what I
50 have called transformation. And the transformation is
really what's been driving our business, and it's not

just about networks, but it is about networks; it's not about IT, but it is about IT; it's not just about market-based management, but it is about market-based management. It's not just about products, it's not just about channels, it's not just about any one thing; it's about everything that we're doing and we're touching within our business, and it ultimately goes to the culture that we have within the company.

10 This is not old Telstra any more, it is the new Telstra, highly competitive, highly focussed and very results-driven in terms of what we do.

Now in terms of today we are going to talk about meeting our targets, those don't change. We're going to talk about our IT transformation because again many of you in our road show and after our results you know you still have some questions about "Well, what about IT, what about TRI, where is it, what's the progress?" et cetera et cetera.

So we will be covering that, and you'll get, again, a pretty good view of where we're at relative to what we've called TR1 and also TR2. You'll get that sense of "Are we on plan? Are we behind plan? Are we ahead of plan?", and again you'll have a chance to hear from the people directly involved.

In terms of costs, the other question that many of you have asked, is "Okay, you know you've done pretty well through the first three years, you know, the numbers you're on are ahead of plan on virtually everything, but gee, I have a bit of a question" - some of you may even say it even stronger than that - "I'm not sure that you can hit the targets in '09 and '10 that you set out back in November of 2005."

So John is going to get up and he's going to talk about that and again last year we started that conversation in terms of trying to give you a sense of how we will get to the numbers, and so today he is going to give you a year later version of that and next year we will talk about the same thing.

But I will say to all of you today that our costs take-out plan is on schedule and it ultimately shows up in terms of to me the big number that we've talked about all along, which is for example to that free cash flow of six to seven billion dollars in '10. It doesn't change. It's still there. It's still right in the sights of everybody on the management team.

Now you're going to hear operational updates from, you know, David Moffatt, David Thodey, Deena Shiff, Justin Milne, Bruce Akhurst, Holly Kramer.

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A lot of our operating focus in terms of what's happening on the front-end of the business is in regards to how we're progressing, how we're competing, how we are differentiating and how we're bringing value essentially to the summer equation as we run this business today.

I want to emphasise again a lot has been accomplished but we aren't even close to where I intend us to be.

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The second thought that hopefully you start seeing is part of the story line behind our transformation as we did set out in November 2005 and we defined a five-year plan and we're holding ourselves accountable to that five-year plan, but I think when you listen to John, when you listen to Greg, when you listen to Tom Lamming and David Moffatt and the rest of the team, you're going to hear that this doesn't end in 2010.

Some people have said "Well gee you know, this is a nice plan but what happens after 2010?" You're going to see there's more costs incurred, you are going to see more growth, there's more innovation, there's more to the story in terms of what we do, but it all goes back to the same points. We spend all of our time thinking about how we differentiate in the business, how we're going to create value for both our customers and our shareholders and it is not a process that is time-period defined.

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So today you're going to see us talk about being even bigger, better, faster and more innovative in terms of what we do. You're going to hear us talk a little bit and emphasise a little bit today about partnerships because we're doing many innovative things, we're executing many things on our own, but there's also partnerships in the marketplace that are now becoming important, and that are going to be now important in terms of further differentiation, further innovation in terms of how I see this business evolving over the next several years.

Today you're going to get a chance to see Steve Ballmer, who will be here in person. Yesterday you saw an announcement that we made in terms of a collaborative partnership with Microsoft. It's a very unique

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partnership, unique around the world in terms of what we're going to do.

5 You're going to here from John Chambers today. He couldn't be here physically because he is announcing his results today but he is going to be here via TelePresence in terms of a partnership that we have and we will be unveiling relative to Cisco and again unique, and you will hear from Holly Kramer talking about some
10 of the new implementations in terms of services and value-add that we will be bringing to market what we call MyConnect.

15 You heard earlier in the week from Bruce Akhurst talking about the partnership with Google and he will talk a little bit more about that today because you're seeing now the collaboration between two market leaders and looking to bring even more value because of the value that each of us uniquely brings in the Australian
20 marketplace.

You're going to see us continue to leverage this integrated company strategy. If you look at the assets, the capabilities that I talked about back in November of
25 2005 and what we would do with them, you're now starting to see the benefits and you're starting to see the differentiation clearly between us and those that we compete with in the marketplace. You're going to see us continue to leverage the existing assets that we have.

30 So today we are going to talk about wireless. Wireless has now reached a crossover point where it's now our largest business within the business, but we are not done in terms of our Next G path and journey that we
35 started in October of '06. You're going to see us show you basically what 21 megabytes per second really looks like and you'll see Mike Wright and Ross Fielding talk about that because it is exciting to start thinking about what more our customers can do every day in their
40 business or in their personal life, and so we will be talking about the enhanced deployment of our HSPA capabilities, and again embedded in everything you'll hear us talk about the same focus, the same intensity about hitting the numbers that we have within our
45 targets and that we have articulated over the last three years.

Now one point that I'd like all of you to be thinking about as you listen to the presentations today, and I
50 hope you see it playing out in the marketplace today when you see what our competitors are doing versus what

we're doing, we have architected our business for the future. We have architected our business for a high speed broadband world.

5 Let me say it again: we have architected our business for a high speed broadband world. This is not the old narrowband world, this is not the old model it is not the same comparable variables, and I can tell you that the complexity of managing a business in this
10 environment is dramatically harder and more difficult than anything that anybody in our industry has seen before, and that enables a different paradigm from the customer difference standpoint. It's about fast, or translated, it means real-time. It's about unlimited
15 capabilities, it's about any device, it's about any place, anywhere, as we think about our definition of our business here specifically within Australia.

So when we look at what's happening with our
20 competitors, it's pretty clear to us that they haven't been able to keep up because they haven't architected their business, their systems networks, their channels, their stories, their processes and even their culture, to be focussed the way that we have.

25 Now, again, where you see us today isn't going to be where we're going to be six months from now, six days from now or six years from now.

30 We are going to continue to evolve.

It is ultimately about our strategy and it is about execution, and again, back to the notion I want to be clear today, relative to our guidance, nothing changes.
35 Period. End of story.

Now, as we talk about some of that when John gets up, I do need to say that we are not immune to financial market conditions and the overall economy of Australia.
40 But it is my belief that we are, we can be, and we will be more resilient than most companies that operate within the economic environment that we do. The times are challenging. We are seeing some of the indicators that other businesses are seeing, but we are dealing
45 with it and we will let you know if anything changes in terms of how we think about our company going forward. So again, no change in guidance.

Now, regarding the business itself, obviously momentum
50 continues. We again have achieved double digit mobile services revenue growth in the September quarter. Broadband ARPU is continuing its positive trajectory.

We are continuing to increase our market share in the enterprise market space, and David Thodey will talk about that today. And hopefully you'll get that sense of the why, why is that happening.

5 And as foreshadowed in August, our mobile services revenue now exceeded PSTN revenue. 3G subscriptions moved beyond 50 percent of our total mobile
10 subscriptions, so again a unique story around the world in terms of what we are doing, migrating the base of our customers from 2G to 3G and growing ARPU at the same time.

15 Thirty six per cent of our mobile services revenue was data, and non-SMS data was 56 per cent of our total mobile data.

20 Regarding wireless broadband, wireless broadband take-up has actually accelerated. We added another 90,000 wireless broadband customers in the first quarter, to move to 660,000.

25 So where are we? Well, we're growing revenues as we talked about in our plan, this year, next year and beyond. We are going to grow earnings within the context of our guidance that we gave three years ago. We are growing market share as we think about revenue market share in the marketplace. We are going to grow
30 free cash flow. That \$6-7 billion figure that you will hear John talk about is still there, right at the centre of how we think about our business.

35 The nice thing about what we are doing, and you are going to hear this from several presenters today, and specifically you will hear it from David Moffatt in terms of talking about doing more with even less, in terms of how we are growing our base.

40 Telstra is in an enviable position when I think about all the reporting that I see many companies doing, all the profit warnings, all the other things that are happening. You can take it to the bank we are going to be growing revenues, you can take it to the bank we are going to be growing earnings, you can take it to the
45 bank we are going to be growing margins, you can take it to the bank we are going to be growing free cash flow, and you can take it to the bank that we are going to be improving our returns in terms of this business.

50 When I think about how many companies I know of that can say what I have just said, not many. We are unique. We are out-performing others in our sector. You will see some of the data. This is not a financial report period, so we are not going through the financial

reports, but you will see some in terms of what's happening within the business. Our trends continue and again, we also benchmark. We always look at how well we are doing relative to others.

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So, punch line, we are doing okay. But for Sol's purposes we are not doing well enough and we are going to keep pressing this business even harder for more performance as we go forward, and more differentiation as we go forward.

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As we go through the day today, I will encourage you to listen closely and observe how the strategies continue to build and unfold, how the execution of our strategies continue to unfold, and to observe that everyone on this leadership team is very focused, very committed, very passionate, in terms of what we are going to do.

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Because at the end of the day everything that we are doing is about changing the game, changing the game so that our customers keep on getting that unique experience here in Australia. Changing the game so that our shareholders can have the confidence that we can deliver on all the things that we are doing, and that we will continue to evolve the business as markets naturally evolve.

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The game has changed. The narrowband world, we are about to close that chapter in our industry, and everybody will be moving into this wide band, high speed broadband context, and it is a different game. The stakes of the game are higher, the complexities of managing in that environment are higher, and we are architecting to be ready to win in that kind of context.

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Now, one last thought and then I'm going to turn it over to John to talk about the results.

First three years we have been very focused on driving productivities, driving change, building networks, changing systems, doing all that sort of thing, and that intensity does not change. It continues. You are going to hear now, and hopefully you are going to start getting a preview of the rest of the story, which is about the media portion of a media comms company. And you will hear from Justin today, you will hear from Bruce today, and you will hear from Kim Williams today, talking about what I call "the rest of the story" that will begin unfolding over the next year or two as we continue to execute our strategy.

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With that I am going to stop, turn it over to the details of the presentations that we have outlined for today. I am going to invite John Stanhope to come up and start giving you some of the data.

MR STANHOPE: Thanks, Sol, and good morning, everybody. We sure have a packed room here. Today I want to basically update you, on the presentation that I gave 12
5 months ago, when we first outlined in detail the financial pathway to our 2010 objectives. A year later and we are in a very different world. Telstra again raised its revenue objective back in August, but we also have a backdrop of a global financial crisis that none
10 of us can really be sure of the consequences.

What we do know is the Aussie dollar that has weakened significantly over the last few months and the credit markets remain extremely tight, even for single A rated
15 companies such as Telstra. And it is but small consolation, I suppose, that our balance sheet which has been described many times as conservative, or even lazy, is now being seen as strong and supportive of the strategy of operational growth, and the healthy
20 shareholder returns we have in place for our shareholders.

So just before delving into the details of the pathway to our 2010 objectives, let me just first remind you of
25 our key guidance measures.

As Sol said, this guidance is unchanged from when announced at our August results, and still - let me remind you - excludes any impact a potential NBN
30 investment might have. We remain focused on achieving all of our 2009 and 2010 targets despite the current expectations in the market for a degree of economic slow down in Australia. However, it would be misleading of me to claim that we are totally immune, as Sol has also
35 mentioned, from the prevailing macro-economic conditions. Should economic conditions deteriorate markedly in the coming months with, say, Australia entering a recession, we would be forced to review these targets.

40 As I said in August, we were prudent with our growth guidance for this year, and that prudence is very much in keeping with the current consensus view, which is for growth in the mid-range of our guidance for growth 2009
45 and 2010. The fact that we have not changed guidance reflects our current position, but as I have said, no-one can be certain at this point what flow-on economic impacts might fall out from the financial market readjustment.

50 By the way, of course I would be obviously obliged to come back to you if we did not believe our guidance was achievable at some time throughout the year.

I just wanted to give you a bit of a look at the economic outlook, a bit of history, if you like, in terms of the economy but also impacts on the com sector and Telstra. In a macro sense GDP growth will be sharply lower in 2008 and 2009, as I guess we all know, driven by mainly a weaker consumer sector and the fallout of the global financial crisis.

Despite recession in the US, recession in Australia should be avoided. At the moment it remains robust but we should not underestimate the slowdown in China, should one occur greater than expectation. Of course the impact of that will be falling commodity prices, which will impact all areas of the Australian economy.

Policy settings should generate stronger growth through 2009, although downside growth risks persist. As can be seen on this slide, for Telstra and the communications sector, history shows that during periods where the economy slows or even declines, Telstra and the sector continue to grow at rates above GDP. We would expect that to again be the case, but with Telstra also having made the necessary investments to be, if you like, in pole position when the market begins to turn positive again.

It's probably also worth me commenting, given we are in a financial crisis, as the word is used to describe it, it is probably good to look at our balance sheet settings here.

The past few months have been a wild ride certainly on the global financial markets as governments around the world throw billions of dollars at trying to kick start financial markets. Our strong balance sheet has allowed us to not only weather the storm, but we have been able to access global credit markets, at reasonable rates I should add. More importantly, in this current climate, we don't have any long-term debt to repay or refinance in the remainder of this fiscal year.

With regard to our cost of debt, we are forecasting an average cost of debt for Telstra to be a bit over 8 per cent this fiscal year.

Let's move on from the macro-economic focus discussion and begin to look at our '09 guidance in more detail. This is particularly important. I did mention it at the full year results announcement, but I want to touch on it again, because the first half and the second half profiling or outcomes year on year are important to note, because again we don't want any surprises when half year results come out.

As we continue to transform the business, it is important to be aware of that profiling, because some interesting things happened in the first half last year that aren't occurring this year, or vice versa.

5 In fiscal 2009, you should be aware of the redundancy impact. In September we announced 800 redundancies across our retail, marketing and product areas. The redundancy costs have been booked in the first half, and
10 the labour savings will be reflected in mainly the second half, and of course a full year impact will occur in '09-10. The redundancy costs therefore effectively are a wash through in the full year numbers when combined with the labour savings. What I am saying is
15 the redundancy cost X, the labour savings will be Y, and they are just about the same number.

You should also be aware of accelerated depreciation in CSL, as they build a new network in Hong Kong. As I
20 highlighted at the full year results in August, we booked \$77 million in accelerated depreciation in the second half, and that is Aussie dollars, of the fiscal year 2008 and accelerated depreciation, I said, will continue, and it will, in the first half of the fiscal
25 year 2009. There was no accelerated depreciation in the first half of fiscal year 2008, so that will obviously impact our EBIT line and our half year growth rates.

Transformation activity - I also said this at the full
30 year announcement - it will be greater in the first half as we continue the IT transformation. But as highlighted over the past few years - and you will see this later - we would expect the cost benefits to start accelerating in the second half.

35 And of course, Foxtel. Last year we received a \$100 million distribution, and we booked it in the first half of fiscal 2008, compared to a \$50 million distribution already booked in the first half of fiscal 2009. So it
40 being less, or being half, that also will impact. So as a result we expect the second half revenue EBITDA and EBIT growth to exceed the levels of the first half in fiscal year 2008.

45 So where are we on the pathway to higher EBITDA margins? We are now past our peak spend years and we are entering the cost savings period. As a result, operating leverage is starting to emerge in the business. But this trend should not be a surprise to anybody here. We have
50 been saying it for some time, in fact since back in November 2005.

We said our costs would rise and margins would fall away in the early years of the transformation, and as we

invest in new network systems and processes, and then turn around in the later years as benefits of the investment flow through in the form of the cost savings.

5 As you can see from the chart there are early signs that operating leverage is emerging, but this leverage will continue to improve over '08-09 and '09-10 as we continue towards our long term management objectives.

10 This is of course consistent with the new operating model I have discussed with you in the past and, as I have mentioned, post-transformation Telstra will have a very different operating model, flexible cost structure with a software defined business.

15 Let's talk about this pathway to Telstra fiscal year 2010. First let's look at the revenue. Over the next two financial years Telstra will increase sales revenue from between \$1 billion and \$2.3 billion. This range is
20 consistent with our long-term management objective of a 3 to 4 per cent CAGR between fiscal year 2005 to fiscal year 2010.

Let's not forget that back in 2005 the stated top line
25 objective was to grow between 2 and 2 and a half per cent years across the 5 years. That growth rate is well above the then consensus for Telstra of 1 per cent.

The chart is simply a graphical representation of where
30 the growth is coming from, and aligns pretty much with the existing current revenue trajectories on a product by product basis. Fixed revenue decline is off a fiscal year '08 fixed total revenue base of \$8.95 billion. Fixed revenue mainly consists of PSTN, CPE, pay phones
35 and premium calling products such as 1800 and the 1300 services. We expect continued strong growth from mobiles, internet or broadband and our Sensis business. As I said a few minutes ago, we remain focused on our 2009 and 2010 targets, despite the expectations in the
40 market of a degree of economic slowdown.

A noticeable difference from the equivalent chart from 12 months ago is the separation of data and IP and business applications and services revenue from what was
45 a bucket called "other revenue". This highlights the success of our Enterprise and Government business unit and the success it is enjoying with meeting the needs of our large corporate and government customers.

50 Our Next IP network - and David will talk a lot about this later - the offerings across a range of industry sectors are positioning Telstra for continued growth in what has been historically a tough sector for Telstra to growth revenue and profitability.

Our revenue includes the elimination of wireless broadband revenue which is included in both mobiles and broadband as you know has been our custom. Offsetting
5 the elimination in other is expected growth from CSL in Hong Kong, Telstra Clear and pay TV revenue stream.

Through a wide range of initiatives, and I will get into a little more detail, of the business, we believe we can
10 reduce absolute Opex between 500 million and 800 million in the two year period leading to June 2010.

This target and subsequent discussion supersedes whatever we said last November. These savings have been
15 identified and planned for. Should more revenue growth opportunities emerge as we become an increasingly integrated operator, the variable cost requirements will increase. But let me make it clear, this will not change our ability to achieve a 46 to 48 per cent EBITDA
20 margin and the six to seven billion dollars of free cash flow in 2010.

I want to talk about the slight mix change we are expecting with our cost takeout in Telstra over the next
25 two years. Benefits from IT platform exits are a bit slower to materialise than we originally thought. However, we are seeing front-of-house savings a little sooner than we expected. This was highlighted in our September announcement where we saw significant labour
30 savings attached to the simplification of our marketing functions.

We are also on track to remove bad and avoidable volumes from our operating environment, as well as other
35 specific cost takeout projects which I will give some more colour too in a few moments. Delivering 500 to 800 million dollars of OPEX reduction between 2008 and 2010, whilst still not having enjoined maximum financial benefit from the IT transformation component of our
40 strategy, augers well for continued expense savings and productivity gains into fiscal year 2011 and fiscal year 2012.

So the world doesn't stop on 30 June 2010. We will
45 continue to gain efficiencies into the following several fiscal years.

So the path to the OPEX drivers on the way to 2010. This slide summarises the key drivers of OPEX reduction
50 that I'll discuss again in more detail. We have ranged these buckets intentionally since some individual costs lines are interrelated or interchangeable, if you like.

For example a slightly lower labour cost might translate into a marginally higher service contracts and agreements cost line, and/or vice versa. However, what is clear is that, with the obvious exception of directly variable costs, we believe that there is the potential for net savings across most of our major cost lines.

Okay, a little more detail, so turning to the specific OPEX lines in the P&L. I'll first take a look at labour. Overall between 2008 and 2010, we expect net savings in excess of \$200 million to come from the labour expense line. This is a net number with a significant reduction in labour costs as a result of our head count reduction, partly, of course, offset by expected salary increases. These dollars include all of our subsidiaries like SouFun, CSL, TelstraClear and so on.

In terms of our 2010 target of ten thousand to 12 thousand fewer FTEs or full-time equivalents than in 2005 - that is, excluding acquisitions and divestments - we remain firmly on target. With around 8,800 head count reduction out at the end of June 2008, and a further 800 announced in September as part of the simplification of our marketing operations, we are on track to be near the top end of the 10,000 to 12 thousand range.

As we move past the peak of our transformation journey, process simplification leads to a more efficient organisational structure requiring less people. The transformation in IT productivity-related head count benefits flow from streamlined processes across many functions, including front-of-house productivity, via reduced average handling times, with one system and a one customer view.

Furthermore, productivity will come from the IT transformation occurring in Sensis. In addition, there will be a benefit from the exit of people originally engaged to design and implement the transformation, as these streams of work subside and make way for an efficient software-defined operating model.

I just want to say a word about directly variable costs. As I mentioned this time last year, prior to the successful implementation of market-based management strategy, growth in a directly variable cost was around 1.7 times sales revenue growth. As you know, our directly variable costs were well-contained during 2008

and we continue to confidently forecast a growth trajectory for these expenses below sales revenue forecasts.

5 While DVCs will continue to grow, we aim to limit the growth rate to just below that of sales over the next two years. We continue to drive for economies of scale with the product mix change from old telephony products to broadband, both fixed and wireless, and IP products
10 and services. Mobile subscription acquisition and retention costs, or SARCs as they are known, have been the main driver in this category. Last year SARC expense as a percentage of mobile services revenue fell from 17 per cent of sales to 14 per cent over the year,
15 and we expect to hold SARCs at around this level over the next two years, even with an Aussie dollar or at least, or near, 40 per cent discount to its June value.

The other major driver of DVCs is network payments.
20 These fall into two broad categories: the domestic network payments and the offshore network payments. Targeting customers with on-net offers and reviewing offshore roaming contracts will minimise the impact of volume increases.

25 A further mobile terminating rate reduction from today's nine cents has not been included, but as you know any reduction there would also benefit Telstra as a net out-payer.

30 Let me just talk about one of the larger line items, service contracts and agreements. As the transformation has progressed we have reported a significant increase in service contracts and agreements. That expense has
35 been driven by a number of things: third party contractors working on transformation activities; front-of-house volumes in our retail businesses; and higher network and IT maintenance and support costs. We expect to deliver savings of \$400 to \$500 million from this
40 category by fiscal year 2010 as key parts of the transformation are completed.

Supply chain efficiencies and a significant reduction in our vendor base will lead to substantial savings under
45 the umbrella of contract rationalisation, as you see on the slide.

Supply chain improvements will materialise across our contact centres, factory - the factory as we call it -
50 and the handset sourcing arrangements. IT-enabled productivity will help Telstra to push more volumes

online especially in pre-paid mobile and customer billing areas.

5 Bill production economies will improve with fewer paper bills, less transactional detail on paper bills, with customers encouraged to use customer-friendly online self-service options more frequently.

10 Productivity benefits from more simple processes will be unlocked across our front-of-house call centres and contracted service staff.

15 As our CAPEX program declines in complexity and cost, and as we pass the peak of transformation, so does the associated OPEX cost base. There will be a reduction in activity and expense across fiscal year '09 and '10, and that is reflected in the slide as well under "Reduced transformation spend".

20 We have a category, as you all know, called "Other" OPEX; every company has the other. It is an important OPEX line. It is made up of a range of costs such as promotion, advertising, IT leasing, impairments, general and administration, those sorts of cost elements.

25 Promotion and advertising will be lower in fiscal year 2010 than fiscal year '08 as we extract the benefits of our market simplification program, visible by our September announcement. IT leasing costs and software
30 costs will fall as we continue to see a combination of lower head count through organisational effectiveness and transformational benefits.

35 We will see a reduction in impairment charges, a reduction that is in project write-offs and stock obsolescence from improved processes.

40 Other general and administration costs will decrease as a result of a number of smaller items such as lower spending on discretionary costs in terms of travel, entertainment, and the office space we need due to the reduced head count that is in the business.

45 I just want to touch on CAPEX for a minute because many questions came my way and Sol's way as a result of us announcing in the full year result that we have taken our CAPEX sales guidance from 10 to 12 per cent in 2010, to 14 per cent. In broad terms this equates to around \$500 million increase in CAPEX, not a large number given
50 we've spent \$20 billion overall on the transformation program. But it's been largely driven by two factors.

I just want to give a little more detail than we have before.

5 The first factor has been variable CAPEX to support customer demand, and that's about \$300 million of the total increase, and will support a 2010 and beyond revenue base that will likely be at least \$1.5 billion dollars more than we originally forecast back in 2005.

10 In terms of some of the details here, it includes around \$100 million to support the exponential growth in mobile data volumes that we expect to continue; the fulfilment of new enterprise and government contracts, which accounts for around \$40 million. And remember, we
15 announced back at the full year announcement that we had won more than \$900 million of new business in this segment. That all requires infrastructure support, and around \$60 million is also related to the requirements for media comms infrastructure, such as data centres,
20 media servers and transmission capacity related to that, and, of course, some growth in Sensis.

Second, the second of the two factors is the IT transformation. There is an increase of about \$200
25 million in the cost of the IT transformation, and to me this is a relatively small overrun on what has been a huge multi-year project. Most of it relates to additional complexity that was not in the original scope.

30 For instance, to manage the switch-off of the hundreds of additional systems that were found in the network, and the change requests required to support that transition.

35 In addition you should be aware – and this is important – that there is an International Accounting Standards Board required accounting change that will take place in 2010. As we used to do under the old Australian GAP
40 accounting rules, we will now be required again to capitalise the interest charge on assets built. However, this accounting change is captured within our guidance of 14 per cent CAPEX to sales ratio.

45 Beyond 2010, I would expect the variable CAPEX element to continue, but I regard the incremental IT costs as a one-off.

50 When we started the transformation back in 2005, we needed to invest. We needed to invest in new networks, new systems, and new processes. We needed to invest

billions of dollars to turn around the company for the long-term and for long-term growth. We did just that. We delivered the Next G Mobile broadband network in just ten months, and we have invested more, expanding the network's breadth and depth of coverage.

We have invested in our core and fixed access networks, and our transmission, to handle the increasing traffic requirements of the digital age. And we are now investing in our IT systems. And once completed this will change the customer experience forever and give us another competitive advantage.

Unlike some of our competitors, we have invested in our networks to handle the growth in network traffic from both the richness of content and the volume of the traffic the network handles, and our networks have been built to be scaleable, to respond to the ever-increasing traffic demands.

Let me just talk now about cash. Pretty important these days. These are the cash flow drivers. In terms of the drivers of our free cash flow growth, here is the make-up of the increase, from our fiscal year '08 base of \$3.9 billion dollars to the range of \$6 to \$7 billion dollars in 2010. The transformation is enabling Telstra to drive our top line whilst building economies of scale in our fast growing IP and mobile-related portfolios. The transformation is enabling Telstra to evolve into a more efficient organisation with improved front-of-house and back-of-house processes.

The emerging operating leverage is driving significant growth in free cash flows. Revenue is growing, OPEX and CAPEX is past the peak and will start to decline. The transformation is on track.

Our profitability grows in absolute terms, so does the requirement, or as it grows so does the requirement to pay more company tax in absolute dollars. And you can see that on the slide as well. This is factored into our cash flow forecast, as are some minor changes across our working capital.

As you are now aware, as we made a release not so long ago, in accordance with the actuarial recommendations, Telstra is required to recommence making employer contributions to the Telstra Superannuation Fund, commencing this month. Contributions will continue for three months and will be approximately \$110 million for the quarter. The recommencement of employer

contributions has no earnings or P&L impact. The performance of the fund is subject to the prevailing conditions in the financial markets. We will continue to monitor the performance of the Telstra Superannuation Fund, and in December reassess, or after the December quarter, reassess our requirements to make further employer contributions in light of actuarial recommendations.

10 It is too early to say whether any payments will be required in fiscal year 2010, but if there are, they will not impact our commitment to delivering our long-term management objectives of six to seven billion dollars in free cash flow.

15 So let me finish where I started last year, I guess. Telstra's transformation was put in place with a single purpose: to turn a languishing, highly regulated Telco into a world-class operator with a growing top line and an efficient cost structure. Three years of great progress has been made, and the key target of six to seven billion dollars of unlevered free cash flow in 2010 has not changed. This free cash flow will afford Telstra's board the opportunity to increase shareholder returns whilst retaining the balance sheet flexibility for value-creating investment, both organic and via acquisition, if opportunities should arise.

25 So thank you, and hopefully you have a far better detailed understanding of our pathway to our 2010 fiscal outcomes or long-term objectives.

I will now hand over to Greg Winn who will take you through some of the operational progress and the transformational milestones.

35
40 GREG WINN: Thank you, John.

In November of 2005, we defined the Telstra operations transformation agenda within the context of the bigger Telstra transformation plan. Back then we knew we had a good platform to build on, and we had quality people, the reach and the ability to invest, but the legacy infrastructure was not built to support what was needed.

45 I said then we would focus on our network and our IT, with the customer at the centre of our thinking. Three years later we've done what we've said we needed to do. We have invested and architected the transformation to

take the best advantage of the waves of growth we are seeing everywhere, and we have stuck to the original transformation budget envelope.

5 We said in 2005 it would be a \$20 billion investment in transforming both across IT and networks, and we have tracked to that. John made a comment, you know, we're slightly off in one area, but overall we've tracked to that program. In getting the job done we've stayed
10 committed to our budget and to our one factory approach that I outlined in 2005. This was our line in the sand on how we could do things.

15 A good part of our success is because we defined at the start that we needed to bring all the factory elements together in one unit, including network and IT, so we could run the transformation in an integrated way, delivering to the bottom line. And we couldn't have done it without our world-class people and partners.

20 Organisationally we have done a lot, and today you're going to hear about the accomplishments of our people and partners. Importantly, we have kept our one factory principles: do it once, do it right for the customer, do
25 it in an integrated way, and do it at low unit cost.

In terms of accomplishments, we now have a very strong foundation. Our networks are world leading. Organisationally we are aligned, as tight as Telstra's
30 ever been. Operationally we continue to consolidate and reduce complexity and duplication. Our people are more productive than ever, as are our systems and processes.

We have further consolidated the factory this year.
35 We've brought the networks, the technology and the services together under Michael Rocca, so these assets are in one integrated operating unit. It's better organised to meet customer needs, continuing to improve our performance, maintain and grow our world leading
40 networks, and deliver to the bottom line.

Turn 4

45 *** turn 4

From the start we identified strategic partners - fewer, world class players who could work with us every step of
50 the way. We have Ericsson, Alcatel-Lucent, Accenture, IBM, Cisco, Sierra Wireless and others have come on board and shared the vision for integration,

differentiation and an enhanced customer experience. Our partner strategy is paying dividends big time. Today I want to talk about those things but especially about the networks, as well as IT, and how we are bringing it all together.

In 2005 I said that the traffic volumes were growing like a tidal wave and we needed to get ready. We predicted that one right. What matters today is we made the right choices in technology and we invested and architected not just to take advantage of explosive volume, but because we saw the opportunity to be out in front on a global scale.

Our choices, investment, and our planning have positioned Telstra equal, or better to, any telco in the world to take advantage of the growing demand for broadband, wireless services, IPTV and next generation technologies, if you think about LTE, Enterprise comms or Enterprise IP applications, or whatever next is coming.

We got organised. We got ready. Today our Next G, our Next IP, our HFC, and other network elements, are delivering growth across the board. Whichever way you look at it, the customer demand for data-rich capability is coming through. Only Telstra can meet this demand in a fully integrated way.

You get a better experience with Telstra, which means you are more likely to keep using and use more. Telstra's mobile performance continues to lead the world. Let's stop there for a minute and remember that we were being beaten here in Australia three years ago, and now we lead the world.

As you have heard, we have built a half billion dollar wireless broadband business in just two years. Telstra is driving record uptake in 3G services and wireless revenues. In retail broadband, Telstra continues to defy global peers, growing market share, ARPU and actual volumes simultaneously. For the first time we now have more 3G services in our customer hands than 2G services, and there is no going back. Let's remember our 3G market share was a very low 3 per cent in December 2005.

None of this is accidental. It took investment and making the right architectural and technology choices from the start to get this dividend. Voice and data unit costs are coming down as we drive the efficiencies we planned and built into the network. The use of a common core to handle all the traffic makes it more resource efficient, it reduces our costs and gives room for growth.

We deliberately chose the HSPA eco-system for its scalability and decreasing network unit cost throughout the life cycle. We planned and we invested to get to this point. The catalyst for this growth has been the superior speed, nationwide coverage, including breadth and depth, reliability and an enormous capacity, all offered by our Next G network, which we have brought together with our world leading Next IP network.

It's a fact Telstra's early and significant investment in choice in 3G at the 850 Mhz spectrum range delivers. With our partner Ericsson we were able to plot a roadmap that will take us to 21 Mbps peak download speeds by the end of this year. Already we are looking beyond 21 Mbps to 42 Mbps and 100 Mbps. It is the largest nationwide 3G network offering covering 99 per cent of our Australian population, with a footprint of more than 2 million square kilometres.

With Telstra Next G at 850 Mhz, you get always 3G, not sometimes 2G, more than six times the coverage area than our nearest 3G rival. We have more spectrum in more places, and better back-haul infrastructure. Make no mistake about this. Back-haul matters in this deal. If you don't have the right back-haul in the right places, then it doesn't matter what you have in the air, because you can't carry the traffic. You can't manage the volumes.

Our back-haul and our Ethernet aggregation is second to none. No other Australian carrier has made this kind of investment. Today Mike Wright will explain how we have completed this build in six major cities, and what that boost in capacity means for data speeds, network reliability, and our ability to support traffic growth. Ninety five per cent of the CBD and metropolitan base stations are connected with optical fibre. That means it supports the speeds associated with Ethernet back-haul.

I can get more technical and talk about being the first carrier in the world to test the Blade Cluster, and to activate 3G Direct Tunnel, but that's not the point. The point is by being at the very cutting edge, you deliver the integrated services that customers want.

Coming from behind to best in class in wireless has overshadowed the other big network story, and that's Next IP always integrated with Next G. Telstra has the fastest network IP in Australia with world leading security and unmatched coverage and scale. Our Next IP network covers more than 4500 customer buildings, and we have DSL covering 92 per cent of the population.

Ours is a fully integrated fixed line network, with a core that has unbeatable scale, up to 92 Terabits per second per node, and it's 77 times more scaleable than the old network. As we said at full year, IP and data revenues exceeded legacy data revenues for the first time in the second half of fiscal 2008.

Telstra Next IP network changes the game for enterprise and government customers. We have cut our connect IPDSL delivery cycle times from 50 days to 10 days. Our IT transformation has contributed to our faster IP cycle times, and an example of that is router delivery to customers. It was taking too long. System simplification on the IT front made a difference to vendor ordering, resulting in a saving of up to five days between order and delivery.

IP transformation will deliver significant gains in our Next IP network and for our customer experience over the next 24 months. What makes us different is, not only do we have a Next IP network with 'five nines' reliability and resilience, but we have architected it to keep customers in business and on line.

We have invested in multiple transmission systems and technologies so we are aren't as vulnerable to single equipment failures. We have both geographical route and transmission system diversity as added protection.

Let's not forget - we also have HFC cable passing around 2.7 million homes. Last year we launched Big Pond Cable Extreme, delivering up to 30 Mb per second in Melbourne and Sydney.

HFC gives customers these speeds, and allows access to Pay TV including high definition content. Like our other networks - remember, the HFC is engineered to deliver a whole lot more in the future if customers want us to, or if circumstances dictate. Our announcement yesterday of the world's first unified comms space with the integration of Microsoft applications with our IP telephony services will make it easier than ever to communicate from the desktop. Today the service delivery framework we talked about in the past is not a future blueprint. It is operational. We are creating a set of standard building blocks across new services, allowing the same components to be reused multiple times.

As we introduce new products on next generation networks, we continue to commit to strip out the old. Fiscal '08 saw the complex, and often challenging product exit migration program gather momentum. We

successfully completed 37 exits or migration projects including 239 plans exited across those platforms. Not to mention the CDMA exit, which finally got done after all the regulatory stuff got the out of the way. This work allows us to shut down our old network platforms. One hundred and ninety three platforms have been capped or exited, including all the associated systems with those platforms, since November 2005. We have exceeded our target of 60 per cent platforms capped or exited by December of 2008. And we will hit the 65 per cent exit by December 2010.

We continue to make the decisions that are necessary to improve our business performance. As costs are addressed, service metrics are improving. Our field workforce productivity is up 50 per cent. Since 2005 we have reduced our ADSL held orders by 99 per cent, to less than 100 today. We meet our customer target delivery for wide band 96 per cent of the time, a 20 per cent improvement over 2005. We have increased our front-of-house clearance rates by 14 per cent.

Customer revisits within seven days is down 23 per cent. Transforming the network has seen network trouble reports per 100 SIOs, drop from 4.5 in 2005, to 3.38 today. We put Workforce Excellence program in place in March 2006. It has delivered a total savings of \$330 million, and is on track to deliver \$410 million in cumulative savings by the end of next year, one full year ahead of schedule.

Our decision to move with speed and choose fewer suppliers is paying dividends to the company. The procurement and supply chain transformation has saved us \$459 million in fiscal '08, and we have reduced the number of suppliers by greater than 20 per cent. This is helping us concentrate purchasing power, reduce project complexity and boost speed to market. We have extended our supply chain agreement with IBM to realise an additional \$200 million on top the \$500 million cost reduction already in plan. We are ahead of plan to realise this \$700 million.

Purchasing compliance is up 40 per cent in less than a year. Average purchase order cycle times are a sixth of what they were last year. More than 80 per cent of our purchase orders are now electronic, almost double what they were a year ago. The Brightstar sourcing agreement - you're going to hear that from me all the time - has delivered \$246 million saved in fiscal '08.

Our property transformation is also delivering results. Telstra generated revenue from surplus properties of almost 56 million in '07-'08. Since last year, we've

exited 72,373 square metres at 30 office sites. The annualised OPEX savings is \$32.6 million.

5 Since July 2005, we have achieved a total reduction of over 172,000 square metres, or 96 sites, resulting in annualised OPEX savings of \$65 million.

10 We are underway with the largest end to end systems transformation that's ever been undertaken. We have millions of customers and services in play, live every day across major products channels, including PSTN, wireless broadband, Foxtel. In fact, we've migrated a million customers since the end of September. The scale and complexity of this IT program is without rival, and
15 we have taken great care in getting to this point.

What sets us apart from what others have tried and failed, is our discipline, planned and integrated strategy from day one. More than 6.3 million customers,
20 and more than 11 million services simply don't shift from one system to another. To get them there, we have mitigated risk, and make no apology for prudence and responsible planning. The program is co-led by David Moffatt and Tom Lamming, with cross-business unit
25 support.

Let me quickly mention some of the examples of how we have worked on this. We undertake more than 95,000 tests, covering systems, stress volume testing,
30 operations readiness testing; we have a command centre we established to manage the new applications in concert with the legacy systems as we take them out.

To mitigate our risks, we've taken great care with each
35 proceed decision. Before migrating customers, we review 100 key business, financial and IT metrics. The senior officers of the business do the final signoff, including Sol, right prior to doing any migration. There's been no major disruption, there has been no melt-down.

40 Siebel and Kenan are world standard platforms. They are not costly custom-built platforms, requiring constant rework every time you want to make a change. We made the right choices with our partners Accenture, Oracle,
45 Comverse, IBM, and others. We have a road map that will allow us to change and upgrade with the rest of the globe.

50 We continue to decommission our IT systems, 385 to date, 20 more since we last talked - I think it was in June - with a projected 465 by the end of the fiscal year. We will pick up the pace in the second half of next fiscal year, and beyond. The end benefits are most profound when you look at how much better the customer experience

will be when they deal with us. The surge in demand, the tidal wave of volumes I talk about earlier, is simply also about the customer. The customers want massive amounts of rich data from the US, because US accou8nts for 65 per cent of all internet content.

Our response to that was to build the Sydney Hawaii submarine cable with Alcatel-Lucent, carrying up to 1.28 Terabits per second of traffic. The customers want fast broadband at home and at their businesses. Our response included upgrading ADSL2 Plus earlier this year, four months ahead of schedule. It brings high speed broadband to an additional 2.4 million homes and businesses across Australia. 16.6 million people now have access to high speed broadband, via ADSL2 Plus, but providing download speeds of up to 20 Mbps.

The customers want better help and education outcomes for remote communities, and communications for mining and industry. Our response with the Northern Territory Government and Rio Tinto Alcan is the \$34 million, 800 kilometre fiberoptic connect cable from the Arnhem Land to the nation's fiberoptic backbone, state of the art communications for rural areas.

Our response, again in the rural areas, is that \$20 million investment, increasing our capacity and efficiency of optic fibre networks in regional Western Australia. The customer wanted a coast to coast single communication system that will make their trains get places faster. Australian Rail and Track Corporation wants it from a carrier who can deliver seamlessly from Brisbane to Perth. Our response is simply to build it for them.

Over the past three years we have had made the right choices, the tough decisions; we have planned and invested for the future, and we have built and integrated networks, platforms and systems and products. All of this transformation activity is about putting the needs of our customers first. We have also put Australia on the telecommunications world stage.

The global industry is watching what we have been doing at Telstra because we have done some things differently and our results are world leading.

Let me remind you - and I am going to deviate from script here - I am just nothing but the plumber, as they call me in the business. I have been doing this a long time. And what keeps me awake at night, everything you have heard and will continue to hear throughout the day, and have heard consistently from us, is about an integrated strategy. Networks are networks. They're

not individual elements. To develop any kind, and deliver any kind of a finished product or service to any customer, be they a consumer, a small or medium business, enterprise or government, requires end to end architecture. And there are two things I find just incredibly stupid, stupid, in what's going on from the so-called pundits and experts in the telecom industry, the first of which hasn't been done successfully anywhere in the world. And that's this issue about separation. It's idiotic. How do you separate an integrated network? Where are you going to separate it? What are you going to do about national security? What are you going to do about Triple 0 services? What are you going to do about fault finding? What are you going to do about isolating? How are you going to find the trouble? What are you going to do about disparate technology that can get interjected? How are you going to do it?

You can drive a lot of costs, new systems, new operating procedures, more people. Who do you think is going to pay for it? Separation hasn't work anywhere. All you have got to do is look across the water - whether you look at New Zealand or whether you look at BT. Look at shareholder destruction and value; look at the lack of investment. It doesn't work. And you can take any expert, and I'll take them on any place, any time, anywhere, okay.

The second issue is sub-loop and bundling. That's another stupid idea. And just being a simple plumber, I can actually spell that for you if you want it. This issue about sub-loop and unbundling, it hasn't been done anywhere. What happens with it? Midpoint interjection. You know, what's going to happen with the technology? What happens when you fracture the network? What kind of noise and interference gets introduced into the network? How does that work? What does it do to pixilation? What does it do to high next generation services that are delivered across these networks?

How do you find the problem? Who's pointing the finger where? How do you do the capital investment? What happens with Triple 0 services there? Who broke it? Where did you have the midpoint interjection? What's causing the problem?

Somebody lights up an arc welder somewhere. Being a car guy, maybe they want to work on something in the back yard. They fire up the arc welder for 15 minutes and knock down the whole neighbourhood. Then they turn it off and go in and have a beer. So how are you going to find that? It's like looking for a needle in a hay stack.

Everybody in this room – almost everybody, I would guess – at one time or another has purchased an automobile. When you purchase an automobile you expect to get something that actually works. You don't go out and buy a chassis from one manufacturer, buy a motor from somebody else, and a transmission from somebody else, tyres and wheels from somebody else, try to put it together and cobble it together and the damn thing doesn't work, and what are you going to talk to?

There are two ideas that are going on in the public space here that will cause a lot of pain for the citizens of Australia, if cooler collected professional thinking doesn't take place.

Turn 5

That is this issue of separation; it's a non-starter. And sub-loop and unbundling is a stupid idea that the largest companies in the world, much larger than ours, have totally written off because they understand what it will do to the integrity of the network and the customer experience.

So, I think it's time for Q and A.

SOL TRUJILLO: Okay, we have about 10/15 minutes for Q and A.

So you've gotten a view about our strategy, you've got a view from Greg about what we've been doing as an integrated company building this, and then you've heard from John in terms of where we're at, in terms of our plans financially, the view going forward in terms of costs takeout. So we'll go ahead and start with questions here.

QUESTION: Laurent Horrut, JP Morgan. First of all, on the FY9 guidance. We've seen, I guess, since August a pretty dramatic deterioration of the operating environment across Australia. I'm just wondering – so you're not addressing guidance downwards, which would seem, in the context of things, a rather logical thing to do. So what are the positive factors that you were factoring back in August, sort of factoring in now, to sort of compensate for the operating environment?

SOL TRUJILLO: I guess I'm not quite understanding your question. We haven't changed guidance, so you're

implying that we're factoring in something that we hadn't contemplated before?

5 QUESTION: Laurent Horrut, JPMorgan: I'm saying, in the light of the last three months, in particular the deterioration in October, why are you still feeling confident about meeting this guidance that was issued in August in a very different environment, and clearly probably assuming things that you wouldn't assume today?

10 SOL TRUJILLO: Let me start and then John can add if he chooses.

15 First of all, the economy we are seeing slow down, we are seeing some things that you've heard from other companies. But one of the big elements of our plan for this year, is the second half we're going to be doing a lot of cost take-out. We've accelerated some of that take-out. You've seen some of the announcements that we
20 made about a month or so ago, and at the same time we're continuing to turn up capabilities on the revenue generating side, because the services that we're offering now are great for a customer that wants to save money.

25 If you're a business and you want to improve productivity, guess what? We've got all the tools, all the solutions, and we've got customer testimonials now for two years on our Next IP, on our Next G, about how
30 they can save money.

The second thing on the consumer side - and again you're going to hear this from Justin and from Kim and Bruce - if you think about the entertainment side of our lives
35 where we spend discretionary dollars that we're looking to contain, we give alternatives. We give real-time alternatives, we give rich alternatives, and it's about how we can help people rethink their spending. That's part of what we're marketing to today. But meanwhile
40 we're being very prudent on our spend, but whether it be on OPEX or CAPEX in terms of how we're running the business.

45 So yes, we're mindful of everything here, and there are some variables that are changing, but at the same time there are variables and leverage that we control. And the good news is we have been on a transformation plan for three years which is about leaning down our company, getting more capabilities in the market, and
50 differentiating so the customers always have a better choice. Okay. Next question?

JOHN STANHOPE: I'll just add something, to answer specifically '09 revenue. What I said was, in the guidance we allowed, you know, there was some prudence
5 in the guidance which means some allowance for some softening of revenue. The other thing I said was that on our current view, right, we have no reason to change our guidance. Our current view. I also said if
10 Australia falls off the cliff, then we'll have to come back if it affects us. But that is our current view.

Something that Sol said as well in his speech was that we're still seeing double digit mobile revenue growth at this point in time.

15 QUESTION: Ian Martin, ABN AMRO: My question is on guidance, particularly the 2010 targets. You've now started to talk about rolling through some of those benefits through 2011 and later years. When do we get
20 those kind of targets, when do you set out a longer term time frame? And we're getting within two years now of that, the 2011 financial year?

SOL TRUJILLO: Ian, you've had a one-time opportunity
25 where I set five year targets back in '05. That was because we were going out of norm in terms of an investment plan, so that I wanted to let all of those who invested in the company know that they could hold management accountable for what we've done. We're now
30 going to move and we're transitioning back into a business-as-usual kind of operation as we get to 2010, and we will manage our business on a year-by-year basis in terms of giving guidance in that context.

35 But what we are telling you beyond 2010, is that there are lots of costs take-out opportunities, streamlining opportunities, as we continue to evolve. Some of them we will get in '09 and '10, but there's going to be even more continuing in '11 and '12 and beyond, because again
40 we're evolving the strategy of this business, we're evolving the architectures that enable us to do more with less as we grow.

So you won't see another five-year set of targets coming
45 from us because we don't need to do that.

QUESTION: Ian Martin, ABN AMRO: It won't be business-as-usual, will it, Sol? It'll be an NBN decision
50 presumably some time in the next 12 months. And even the 2010 targets you've got are all based on - don't include an NBN assumption. My question really is that

six to seven billion free cash flow, I know you can't talk about the NBN, but if there is an NBN, what happens to that 6 to 7 billion target?

5 SOL TRUJILLO: If there is a NBN decision, if we choose to file, and if we are awarded or whatever, we would then have to do another update in terms of what we would see as the requirements, given whatever the NBN decision might be.

10 So Ian, we would talk about a multi-year view that would be an overlay to a plan at that point in time. But we're not there, and so to talk about it now today would be - we could speculate all we want, okay.

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QUESTION: Sameer Chopra, Deutsche Bank. I had two questions. The first one on service contracts. We're expecting four to five hundred million cost-out in
20 service contracts, out of which I think 150 related to contract rationalisation. We've seen rationalisation through Bright Star and through property. I'm wondering where else is there contract rationalisation that comes in the business?

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My second question is on mobiles. Very improved data numbers there. I think you said 36 per cent of mobile revenue is data; 50 per cent of that is non-SMS. How much is non-SMS is wireless broadband, and what are the
30 trends on things like Foxtel TV?

GREG WINN: On the first one, service contract rationalisation, one is, the first layer is more the same. We have more opportunity, substantially more
35 opportunity in the property portfolio area. We have more opportunity in some of the contracts where you saw we consolidated our outside supplier base and Mick Rocca's operation, we expect to yield more benefit through that. And the third area is in our IT space, is
40 that you will see as we roll out the Legacy systems, we have to have all the customers off as we roll out of them, is that a lot of the contract costs go away and the old contracts were much more expensive because we were maintaining outdated equipment and software and
45 licence fees. All that stuff starts to roll out of the business. So that's where we'll see it.

SOL TRUJILLO: John, do you want to talk about some of the numbers on the wireless broadband?

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JOHN STANHOPE: Not actually giving too much guidance on

September other than wireless is still at growing double digit, but let me just assure you that wireless broadband is a large part of that growth and that's still growing very strongly.

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QUESTION: Sameer Chopra, Deutsche Bank ARPU is holding up in that space?

JOHN STANHOPE: Yes.

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SOL TRUJILLO: If that's what you're getting at, again these are great days for consumers. When you think about this device, this device. And Holly just gave me a new device last night which I was playing with last night and today, and it's the new Samsung Touch which is another cool device. But what we're seeing is the consumer behaviour - a lot of times we've all talked about the wireless broadband being kind of business-centric, work-centric and driving lots of usage - but we're seeing a lot of adaptation in terms of lifestyle.

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Now when you look at a true 3G device that's on a true, as Greg said always 3G network, you get a lot of power with that, and consumers are starting to learn more every day about what they can do. And we're making it one button, one click, one icon simple as we continue to evolve, and that is going to be part of the story, so strong growth.

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QUESTION: Tim Smeallie, Citigroup: I guess if I can summarise this morning's session, we're saying everything's on track, guidance is in line where you have previously outlined, you're comfortable with where the transformational program is. The big issue with the business goes forward comes back to the government's policy. Looking at the context of what happened to BT and what happened to Telecom New Zealand, there's no way that management team wanted that to happen either. But it did get legislated, it has happened.

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I'm interested to understand how you're addressing the strategic options. If you don't get the guarantee that you're seeking from the minister, what are the strategic options Telstra has if you decide not to bid?

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SOL TRUJILLO: Let me first of all clarify what you said in terms of summarising this morning. Obviously within the business, I'm not going to stand here and say every single thing in the business is on track or ahead of plan. There's always adjustments in terms of

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something might be a little behind, some things further ahead, but in the aggregate, which is where all of you should be focused, and we are focussed, is that the business is doing well, okay. That's kind of the punch line.

In terms of the question about these other mistakes that have occurred, in the case of the UK, let's use that as a kind of the first example of, as Greg would call it, I would call it, stupidity. The government had a view of enhancing competition, they had a view of incenting investment, they had a view about a lot of things, and they had a strong view. But they didn't legislate it. They actually got the company to agree that, you know, Gee wouldn't it be nice to get along with the regulator?, and wouldn't it be great, right? And that's when they were a \$80 billion, \$70 billion market cap company. And so they agreed, and now they're a \$15 billion market cap company, something like that.

They have unprecedented value destruction just with a single decision like that. So just agreeing to separation is the most value-destructive step management could take or a board could take. I should say a board because it is a board decision.

So that's why some of us just label it with the capital S, right, because shareholders should shoot management if they ever agreed to something like that. So that's kind of data point number one, and it was an agreement which then got implemented, sort of. And I'll come back to the UK.

In the case of New Zealand, that was a little more forcible in terms of what happened there, but the same outcome: dramatic value destruction. And again, this isn't an opinion, it's not emotional, it's facts: that you, if you are management and you agree to anything like that, it's dramatic; there's nothing you could do worse to destroy value than that. So just to be clear.

Going back to the UK model, now that we've had a couple, two or three years to see what the outcomes of it are, there's been no infrastructure build that's occurred in that country; the government has initiatives underway trying to figure out how they can stimulate infrastructure investment. Because nobody can afford to do it, including BT who, in case some of you didn't notice, last Friday issued a profit warning. They have the lowest EBITDA margins of any major carrier in the world.

So the economics get broken, and that's what Greg's point was a little bit earlier. Economics get broken. If you're a nation and you want to see investment, you
5 can't break the economics. If you break the economics, you go back to that S word, okay.

The second thing is that you can say, well, what about competition? Maybe competition was enhanced? And the
10 answer is, there's no more competition in the UK than there is here. We have more ISPs per capita than anywhere else in the world today. We have as many give away price programs in the market as you'll find
anywhere else in the world today.

15 So what would happen? Nothing, other than no investment in terms of that environment. So from a shareholder standpoint, from a consumer standpoint, where now you freeze out investment maybe for a decade or two, you
20 leave a nation that will just fall further and further and further behind the rest of the world. That's what you create.

So as a result, we have looked at it from a shareholder
25 standpoint and been very clear. We don't do things that destroy value, we don't subscribe to the S theory of management, and so we have been clear that we think building out and broadband-ising Australia would be a great thing for the economy. We've estimated the
30 benefits to be \$200 million a month in terms of productivity gain, and that's the upside. But you have to do it right because you can't do it one piece at a time. It's got to work, it's got to be workable where you can overlay services and do all the other things.

35 So we're being clear: you can't do it under a separated kind of regime. There's no economics in it, it doesn't work for shareholders, it's a stupid kind of approach for the benefit of the country, for our shareholders,
40 for the consumers, there's no upside at all for anybody.

GREG WINN: That's all the financial stuff which you
guys are mostly interested in. But the thing I find
really amusing about it, and sad at the same time, is
45 the damn thing doesn't work, okay. If you do your homework, you'll find out that 21CN is a laughing stock in the industry, in the engineering departments, in the operations departments, and with the key suppliers
around the world. And we know that for a fact because
50 we get called all the time: How have you been able to make people that compete firstly in the marketplace

cooperate to build the kind of networks that you've built in Australia? You know, their technology doesn't talk to each other. It's stopped dead in its tracks. It doesn't work.

5

Just look at how many customers BT have on 21CN that are delivering high bandwidth and new services. Operationally we get calls all the time. I get calls all the time: Can you help us fix it? Do you have any thoughts on it? They've got more of the Accentures of the worlds, IBMs of the world, the Bains of the world, all the people that we work with, in there trying to fix it. And I've got to tell you, they've broken it very badly. It's going to be costly and they're going to back up on a couple of decisions. And they're in a highly dense population, a lot easier to do than what you're talking about doing here in Australia with the size of this continent. Crazy.

20 SOL TRUJILLO: So maybe to finish it off, then, the issue here is not about intransigence, it's not about, you know, only our way, it's not about any of that. It's about what's real, what's doable, what's workable and what's in the best interests for everybody. The model that we talk about in terms of building out an NBM, giving access, as we do today, there's nothing that changes. It's just people get access to more capabilities, those that choose to compete. That to us makes a lot more sense, and makes sense - and I can tell you, you mark my words, it's a lot more economic for our competitors to do it this way than to do it the S way. And that's simply because costs will go up. People don't even know how much the costs will go up because of the inefficiencies of a system like that.

35

So we want to see what's best for Australia, we want to see what's best for our shareholders, and what's ultimately best for the customers that we have. And it's not about PowerPoints, it's not about papers that people write that have no experience in building anything; it's about real people doing real things, that know how real things actually do work. And that's what we're going to stay on because we're very shareholder-focused in terms of what we do.

45

Next question.

50 QUESTION: Tim Smeallie, Citigroup: Just on John's comment after the last month saying unless you receive the assurance from the minister, you're not going to make a bid. I guess my read of the RFP documents say

“If you’re a bidder tell us what regulatory requirements you have as part of your proposal, what structural initiatives will you put in place?” My read of the tender is they’re saying to the bidding parties “Tell us
5 what you need to make this work”. And I guess I’m just confused, just saying you want an assurance from the government before you make a bet. I guess my question is, how do you assess that in terms of the bid documentation saying tell us what regulatory
10 requirements you have. And secondly, will you publicise whether you actually make a bid?

Turn 6

15 SOL TRUJILLO: Number one, we have publicised already what our requirements are, so we are clear, in case somebody didn't hear it, we need clarity, period, end of story.

20 The second point is, you will find out on the day that responses are due or not due. Okay, next question.

QUESTION: Mark McDonnell from BBY: My question
25 really goes to sustainability of planned operating margin improvements, particularly on the cost side; and there are two aspects to that I would like to ask about. The first is that there were some comments made about labour costs and labour costs being contained. To date
30 a lot of the labour costs have been driven by head count reduction, and we have a plan through to FY10.

Given the normalcy of the CPI and productivity based improvements, can you sustain labour cost reductions
35 beyond FY10 without further reductions, or to be even more specific, do you see further scope for further staff reductions beyond FY10?

40 MR TRUJILLO: Let me have John respond to it, but I want to reorient the thinking about labour costs going down. We are working on reducing labour costs from where our model was when we started in November '05.

Number one, as your business changes, your labour to
45 revenue, kind of that revenue or labour productivity variable is how I think about managing the business. If we can accelerate more growth and we double the volumes, we are going to have more labour costs, and that would be a good thing for shareholders. But how we think
50 about the productivity of them should always be measured as improving. That is kind of the driving metric.

So, as you look at Telstra and our operating model going

forward, we still think that we can streamline the business more, do more with the volumes we have with fewer resources ultimately, because we have made investments to create that productivity benefit. Beyond
5 2010 my bet is you are going to see us make more investments, continued investments, that enable more productivity as we continue to accelerate volumes. And you are going to hear a little bit later today about new ways that we are going to accelerate more growth. Some
10 of them we have announced, some you will hear more about today.

Always think about them in the context of revenue to labour, so it is about that productivity element versus
15 an absolute dollar amount. I would love to double the size of this business, and if I have to spend more on labour costs that's a good thing.

Did I answer your question?

20 MR McDonnell: Yes, but I didn't quite hear whether you are planning further staff reductions. I think you are saying you want to apply resources to grow the business?

25 MR TRUJILLO: The answer to that, if that's your question, the answer is yes, it is part of the 10,000 to 12,000 number that we talked about back in November '05. And there will be more because we are not at 10 to 12 yet.

30 MR McDonnell: The other aspect relates to the blowout that we saw in the IT costs. And I am wondering to what extent part of your operating margin improvement is actually occurring as a result of a CAPEX for OPEX
35 substitution, particularly around a change in policy, around leasing versus owning IT equipment and products that you use within your business.

40 If that is the case, that you are using less leasing and more direct ownership, are we not simply seeing a transfer of an operational cost into a CAPEX?

MR TRUJILLO: I will have John talk to the second part. Let me clarify your language here. In terms of a
45 blowout, there is no blowout on IT, in terms of what we have done. This is Sol. Sol has continued to evolve the definition of what this business is about. When you look at being a media comms company, when you look at what we are going to be doing with data centres,
50 hosting, all kinds of other things as we evolve the business, those things simply weren't in our plan back in November '05.

I have added to the definition of the business.

Therefore when I talk to Greg and Tom and ask them to build to it, they are building to it, and that is creating more IT cost.

5 As I asked Justin to do more in terms what we are doing on the contents side and the services side, it is going to take more IT infrastructure to be able to do that. That is more cost. That is a definitional issue that is reflected also in the revenues that are above what we
10 said in November of '05. So I think the characterisation of cost blowout, cost blowout, is not correct. It is about definition of the business as expanded, which creates more cost.

15 There is a little bit of additional cost that is associated with what we knew three years ago, given the size of the business, but I would characterise it more as the growth and the scope of the business, bigger infrastructure, bigger customer base, than I would
20 characterise as a blowout.

John, do you want to talk about that?

MR STANHOPE: With respect to leasing or capital
25 purchase of servers, or whatever, we make a decision on an economic basis. Is it cash better to buy them or to lease them? And over the last couple of years primarily we have been buying boxes, not leasing boxes. So I mean, it is really not having a big impact on the financial
30 outcomes.

QUESTION Mark McDonnell, BBY: What's your expected replacements timeframe, John?

35 MR STANHOPE: Our depreciation life for a box is about five years.

MR TRUJILLO: We are being told we have one more
40 question.

QUESTION: Good morning, it's Christian Guerra, from Goldman Sachs JBWere: Greg, can I ask you a couple of questions about a topic very near and dear to your heart which is Next G? The three things I would like to know
45 are, number one, if you go back to November '05 on a scale of 0-10, how surprised have you been by the growth in volumes in Next G network? Secondly, in terms of network volumes going forward, do you think it is doing to double, triple, 5X over the next three to four years?
50 And thirdly, you told us last year you were starting to put Gig E to bay stations in the Next G network, are you able to tell us what percentage out of your current six and a half thousand are connected with Gig E today?

MR WINN: The first question was on a scale of 1 to 10 how surprised have I been about the growth with what, 10 being very surprised?

5 I would say 1. The reason I say that, Christian, is for those of us that are old dogs who have been around a long time, as you have gone through the various technology changes in this trade, when you think about the internet, nobody could predict the internet, and
10 what the demand curve was on the old classified switching infrastructure, when people first got modems and dialled up and went off line, and then they'd walked away, went to dinner, they went outside and played, and they left the damn computer on, and our networks were
15 dying with congestion and usage, was exponential.

Every time we have had a major shift where we're enabling people to use more of their 24 hours a day - which doesn't change - more productively, then we see
20 these huge spikes. So actually when Sol sat down and talked to us on many of the late nights we had when we first got here, it was his vision, and he's been visionary about being the digital CEO 15 years ago, or whatever it was, and it's always been, how high can you
25 jump?, and it has never been high enough. So we knew, and that's an issue about how do we architected. We architect it for an exponential growth curve. And we knew we had to have the Next IP, which leads into one of your questions. So the answer was no, I was not
30 surprised at the growth.

I think the second question was do I see the growth doubling, tripling, quadrupling over the next few years, and the answer is yes to any of those. The higher
35 numbers, the better. The reason being, look what's happening with the devices themselves. Again I go back to there are certain fundamental laws that don't change. There are 24 hours in the day. Whether you are a consumer or professional business person, you're on the
40 move, you want to make the most of your time. There are productivity tools, whether personal productivity or business productivity.

These devices are becoming so much more sophisticated and they are bandwidth hungry. As long as they add
45 value and make life simpler for people and more enjoyable, they are going to continue to use them.

Where Sol nailed it, what has been at the back of my
50 mind, is as Sol wanted: one touch, one click, one word, one command. All that means for the plumber is I have to build bigger pipes, longer, there's going to be more usage. People use things that they like. If they have an enjoyable experience, they are going using it. We

are creating that. That's why our ARPU is world-leading. I don't see that changing.

5 Look what the device manufacturers are doing. Everybody talks about LTE and WiMax and Next Generation technologies. It's because there is going to be more of them. The numbers are going to go exponential.

10 Your last question was Gig E. I will just give you a range. It is over 20 per cent. It has already turned up. I think I told you all of our six city core business districts, we have 95 per cent of them, we have fibre into them which enables the Gig E. It is a matter of how fast we are flipping the switches on the stuff.
15 We are in excellent shape on the Gig E turnover. Why? We put in internet-based bay stations to start with. We put in fibre. We continue to put in fibre. We are turning it up as we need the capacity.

20 Again, it goes back to the issue about strategically it was architected to all work together, so we are in great shape. I think we turn on over 20 per cent of our base stations, and we could turn on 70 per cent, 60 per cent if we chose to, we just haven't yet.

25 MR TRUJILLO: In this part of the session we need to keep moving. I think Greg's presentation beautifully illustrates this notion that architecting for the future is really important. Fracturing the future can be very
30 destructive so let's take a little break. We are going to come back. We have got some interesting presentations now relative to what's next, okay. Thanks.

35 MORNING TEA

ROSS FIELDING: Good morning, and welcome back. My name is Ross Fielding, and up here on the stage with me
40 is Mike Wright. We will kick this session off with a video. To be different, we will use a video that we download. And so I'll kick the download off and watch what's going on around you, and I'll describe what's happening. The video is a high definition video. It's
45 over 120 megabytes. On my left, what we have got a laptop and a 21 megabyte per second USB. Qualcomm and Sierra have helped us develop up what is a world first. And what you're seeing is a demonstration of that file downloading on my left.

50 On my right, what we've got is a 3.6 megabyte data card, live download. This is the one that our competitors - this is the maximum they've typically got. It's going

on a little bit slow.

Back over here on my left, have a look at this file.
It's downloading. Mike, how long have we got at it?

5

VIDEO SHOWN

Well, I was going to say a little bit earlier, Mike and I had a talk about doing a live demo. It always has a bit of fun when you do it. We were talking about Steve Ballmer doing a live demo a little while ago, and the challenges that Microsoft had. We actually watched it on U Tube just to remind ourselves.

10
15 Guess what, it just happened to us. I have to tell you, Steve was standing over the podium before and he actually had his hand on top of the modem, so I'm going to blame Steve. Just a little bit of notoriety just in case he thought he snuck in the room.

20

This is real, and that was live. We actually did get halfway through that download. Between ourselves, Ericsson, and Qualcomm and Sierra Wireless, we've been developing this up now for probably the last ten weeks. It shows you how far it's come. That was halfway through and it did download. It's downloaded a number of times. It is seven times faster than what you would have seen on the right. Under a minute it would have downloaded a 120 megabyte file, hi def file. This would have finished playing, while that would have still been going well on into five or six minutes.

25
30

The video showed you that our customers are already using high speed wireless broadband. In fact, they're using our high speed wireless mobile service and they're using it more and more and more.

35

What we are doing today is we are announcing that we will launch early next year a 21 megabyte per second USB modem, and that will go live at the start of next year. It doesn't happen by accident, and what we did think would be worthwhile is Mike running through - Greg Winn already mentioned some of it, but Mike's just going to run through the technology that sits behind it and makes it real.

40
45

MIKE WRIGHT: Yes, some of the risks of pushing the envelope, which we've done since we first launched Next G. We're no stranger to be wanting to be at the front of the technology road map, and to push the envelope, and today's no different. It was only four weeks ago

50

that I saw the first ever demonstration of a 21 megabyte per second device in Stockholm. And to think we're standing in Australia now with the capability, and indeed we will look to rerun that test during the break
5 today so you will see the full extent. But you would have seen during the test we were bursting up to over 80 megabytes per second.

10 Since the launch of the Next G network just 24 months ago, we've increased its speed from 3.6 megabytes a second on average about three-quarter of a megabyte per second per month since launch, as we go to 21 megabytes. That's actually a greater speed increase than the good old-fashioned Moore's Law, so we really have pushed the
15 envelope continually.

Greg mentioned in the company, he is a plumber. I guess I'm also a plumber, only I do it without pipes, in the wireless network. Earlier this year in Barcelona we
20 announced that Telstra would start rolling out an enhanced HSPA or EHSPA across our Next G network, to deliver peak download speeds of 21 megabytes per second by the end of the year. You will see we are well on the way to making this a reality, we're well progressed in
25 our testing and we're ready to start the network roll-out in the coming weeks.

Already you won't find a faster national mobile experience anywhere in the world. Having this new
30 capability and our network means Australians are going to continue to have unrivalled broadband experiences when on the move.

The 21 megabyte per second enhancement gives us the
35 capability to maintain network quality for customer experience under exceptional growth. The higher speeds enable development of new applications such as medical screening, image and video transfer, and of course the high speeds also mean that some existing applications
40 will perform even better.

For example, a person will be able to sync a day's email - and mine's about the size of the file we downloaded, about 120 megabytes a day - much quicker and get back to
45 productive work.

But a wireless network needs much more than base stations. It needs a robust super-fast wireline network to connect to, and the link between the wireline and the
50 wireless network's called back haul. And wherever demand is high, usually where the population centres are

the most dense, there's no point having a fast wireline network if it doesn't connect to an equally fast and robust back haul network, that can carry all the speed-hungry and data-hungry requirements of a broadband enabled community. An Ethernet back haul capacity in the core of our Next IP network actually help drive the speed and reliability of our Next G network.

So Telstra's investment in back haul is, in fact, a key differentiator. Over 15 years ago we started investing in optical fibre for our 2G network rollout, and now we're actually upgrading that fibre to gigabyte Ethernet back haul.

Our lab tests and our field tests have shown when combined with our roll-out of fibre and fast Ethernet, this network will deliver true high speed connectivity on the move.

All of this might look easy; sometimes it looks a bit more difficult than easy. But it takes an integrated end to end plan with the right partners, and this case partnering with Ericsson, with Sierra and with Qualcomm, and the right engineering skills to pull it all off.

Just look at the world at the actual user experience you see on other networks compared to Next G, and you will see it doesn't happen on its own. It takes execution. Telstra already offers some of the fastest mobile devices available anywhere in the world, and we're continuing to work with our partners to ensure even faster devices come on board and make the most of the new speeds. So that's why I'm excited to be here today with Ross as we prepare to bring to life the most exciting wireless development in Australia and, in fact, the world. Ross?

ROSS FIELDING: Thanks, Mike. I think the other thing worth doing as you look at this, and Mike referenced it, we've been out at the forefront of mobility and the speed coverage capacity issue for a long time. In fact, look back at October '06, and Sol mentioned it, we launched a 3.6 megabyte per second data card. In under 12 months we upped that to 7.2. Mike's team upgraded the network Australia-wide to 14.4 megabytes per second, and that was under 11 months from the day we launched 3.6.

Today we're here saying that in a little over 12 months we will launch a 21 megabyte per second capability. So within two and a bit years we've gone from 3.6 to 21.X

megabytes per second. Unbelievable.

What it does do - and who knows what that delivers in terms of customer opportunity? There's no question it
5 delivers the capabilities to unlock endless possibilities for industry, for government, for enterprise, for business, for consumers. True high speed mobile connectivity while you're on the move; 21 megabytes a second next year.

10 What does it mean? It means you can download movie trailers or a high definition movie trailer; you could download it quicker than it will take to watch it. Doctors, regional doctors, can download a high
15 definition X-ray in 15 seconds. Just a couple of examples of other things, and you could just imagine what else you could do.

So also if you think about this, and I think Sol
20 mentioned this earlier today, in just two years it's a half a billion dollar business, wireless broadband, well over that now. By the end of quarter one, 2009, we will have in excess of 650,000 wireless broadband customers. All the time average output - I think there was a
25 question earlier today - the average ARPU around \$90, and not declining. And all of that at the same time that we are growing our Next G base, and data usage on the Next G handsets as well. Truly quite a staggering achievement over the last two years.

30 What's the path to 21 megabytes per second? And Mike's been through it. You do need the network. You need depth, the breadth, the reach, the capacity, the back haul, all those things to really deliver an end to end
35 21 megabyte per second peak speed. Not the old on the right-hand side, 3.6, waiting for things.

You also need partners. I guess it's a theme that you've heard so far today and you'll probably hear it
40 again and again and again. Telstra partnering with world's best companies. In this case Ericsson, Qualcomm and Sierra Wireless. Ourselves included, four parties delivering what really is a world first and will be world first.

45 So in summary what are we saying? Our network will be upgraded by the end of this year to 21 megabytes per second. It will be done by the end of this year. We will launch a device, a service, a product, in the first
50 quarter of next year.

While what we've demonstrated here today with this didn't quite work, it is real, it is live. It's already working, and our customers and ourselves will remain at the forefront of this game of speed, speed and speed.

5 Thank you.

SOL TRUJILLO: Ross and Mike, thank you very much. I'm really proud of this team because for those of you who don't know the industry well, getting the
10 synchronisation of the network manufacturers, the chip set makers, and getting them in the room at the same time, along with the service provider to make it work, is really a feat, especially when you're leading the world in terms of that development.

15 And as Ross said at the end, those targets are going to be met; we're going to deliver this great service, and we will reshow the demo here shortly.

20 Now we're going to switch gears a little bit, and we're going to talk about another area of innovation. Now we have the great pleasure today of having a special guest, and that special guest is a guy by the name of Steve Ballmer. Some of you probably heard of him, probably
25 heard of his company called Microsoft.

Now, some of you have heard me say in the past, Microsoft is one of those companies that I have an eye on, right? They're one of those companies that's coming
30 at us, and we're viewing them as one of kind of a strategic competitor. So some of you might be sitting there today saying, well, gee, why are you doing something with Microsoft?

35 And Steve and I have a long history, and Microsoft and I have a long history in terms of doing business together and competing in some areas and being a customer of theirs, you know, in almost every company that I've been responsible for.

40 But I would say that what we are talking about now, what we are about to do in the marketplace, is going to be very unique. And it's about a collaborative model where we both essentially create value for our own businesses,
45 but more importantly we can, by working together and integrating in unique ways that haven't been done before, essentially create value for the customer. And that's the endgame for both companies.

50 And one of the fun things about working with Steve is that Steve is a guy that just every conversation is

always about customers, and every conversation is about, okay, so how do we get things done? And it's also about being clear about how do we make money doing it. Because we all are standing here on the stage talking
5 about creating value for the customer and creating value for the shareholder at the same time.

So as we were thinking about investor day today, and thinking about the next wave - and you're going to hear
10 more from Deena and David Thodey in terms of how we're attacking in particular the business side of the marketplace - I thought it would be great if Steve would be able to make the trip. It's a short trip from Redmond to Sydney here, but when I called him and asked
15 him if he would do it, he said sure. He said it without any hesitation, and he said it without any concern at all.

So I would like for all of you to help me welcome Steve Ballmer, who is going to talk about our announcement, but also bring to you a view that he and Microsoft have in terms of the road maps going forward as well. So help me welcome Steve Ballmer.

25 STEVE BALLMER: Well, thanks very much, Sol. I do have to say I think I probably did it. Sol wondered whether we were competing for all of those years, that we finally got into a constructive partnership, and I went and ruined the first 21 megabyte wireless demonstration
30 ever. You're going to wonder about me again, Sol, I'm pretty sure.

Thanks, everyone, for the chance to be here today. I'm very excited to have a chance to talk about the
35 strategic alliance between Microsoft and Telstra, and to share some of my thoughts not only about what the alliance means for businesses and consumers here in Australia, but some of the unique things that really Microsoft and Telstra are going to make work for the
40 first time anywhere in the world, here in Australia.

To do that I've got to give you, I think, a little bit of context. The past decade has really been a period of incredible innovation and progress in our industry.
45 Advances in hardware, networks, have opened the door to a new generation of software that's transformed the way businesses run and the way people connect information, and one another. Today we can kind of take it for granted the way these technologies have changed our
50 lives, but really ten years ago most of us didn't even have a mobile phone, had not experienced the Internet,

and may not have even had a PC available to us. And we take those things for granted today.

When you think about the, the cell phone that doubles as
5 a digital camera - I just came from Korea and Japan and those digital, those mobile phones will have eight megapixel cameras in them in the course of the next 12 months. The hands-free navigation system that feeds us
10 directions so we can avoid traffic jams, not just directions, but avoid traffic jams, advances like that have really laid the foundation for even more dramatic change that we expect to see in the years to come.

Still, it's not all there. There's something else we
15 can do. We still, all of us, struggle to connect all of these things, these devices, the information, the people, we struggle to connect it seamlessly across our entire lives. At Microsoft one of our driving goals is to eliminate the boundaries that exist between people
20 and information and devices. And frankly I believe that a new generation of technologies are going to start to transform the way people connect to the communications, the content, and the computing they need, whether they're using a PC, a mobile phone, the TV, or some
25 other web connection.

The heart of the transformation is the ability really to pull together the best aspects of software that runs today on PCs, the best aspects of the phone and TV
30 worlds, and the best aspects of services that run on the Internet. It's an approach that we like to call software plus services, and you know people talk about "cloud computing" and software plus services and on demand computing. At the end of the day we're all
35 trying to do exactly the same thing. We're trying to bring together one world of information, devices, communication, and we're trying to make sure the user gets a beautiful, beautiful, simple, easy, compelling way to find and to interact with the things that are
40 most important to them.

For most companies the ideal way to build IT infrastructure is to look for the right balance of applications that are managed in their own corporate
45 data centres, and that run in massive data centres out in the Internet, or what is often referred to as the "cloud". That balance is going to keep changing for each company over time as companies like Microsoft and Telstra, working together, have a chance in some senses
50 to dramatically simplify what people do today in information technology departments to really facilitate

the regularisation and lower cost operation of many routine data centre services, in facilities and with people that our companies write.

- 5 Software plus services really does ensure that companies should have the flexibility to choose the solutions that match their business requirements, and at the same time provide great agility and low cost. Agility: this is not just about cost, it is about letting customers be
10 able to move faster, to do new business processes and access new capability.

- Microsoft and Telstra basically share a belief that this world that we like to refer to as software plus services
15 is the best way to deliver incredible user experiences. And our goal is to really work in incredibly close partnership with Telstra to deliver the capabilities, the combined rich applications, great mobile services, and great hosted or cloud-based solutions accessible
20 from any device with, of course, the 21 Mb type speeds that you almost saw earlier.

- We believe that together we offer the innovative products and services that can help make Australian
25 businesses more productive and more competitive.

- When Sol and I first talked about this, I'd say, okay, sure, we like to partner with all telcos. And Sol said no, you have really got to hear me. We are a different
30 kind of a company and Australia is a different kind of environment. It's big, it's contained, you don't get the same kind of cross-border interaction that you would find in Europe that makes things frankly more complicated. And he says, I don't want to just work
35 together, I want to do things that are unique, unique based upon Telstra's unique capabilities, and what we can do in Australia.

- We spent some time talking about that. So the
40 partnership that we have entered is a partnership that actually will have us and Telstra doing things that really are not being done anywhere else on the planet because of the capabilities that can be brought to bear, and the nature of the market here, which is
45 technologically sophisticated, and yet at the same time is looking for a new solutions. Together we plan to focus on solutions in three areas: mobile services and devices, hosted business software, and what we call unified communications.

- 50 Mobile services will include a new Telstra-unique user interface built on top of our Windows mobile platform, that will provide easy one click access to e-mail, to calendars, contacts, business software, the web, and

much more.

Those services will enable a company to manage its mobile devices as easily and effectively as they would
5 manage any PC. With hosted business software, companies will be able to take advantage of Telstra's high speed networks to access Microsoft on-line services software, including Exchange, Sharepoint, Office communication server and Live Meeting, the fabric and core of the
10 communications networks of many businesses, at least in the PC world, all available out in the cloud from Microsoft and Telstra.

Those hosted solutions will enable not only large
15 businesses, but small and medium sized companies, to benefit from advanced capabilities that they might not have been able to afford or implement in the past. And of course, these same services will help larger organisations save time and money by having Microsoft
20 and Telstra host and manage parts of their IT infrastructure.

What I think I am actually most excited about - and I probably shouldn't tip my hat on this at this point to
25 my Telstra friends - is the works that we are doing in unified communications solutions. Microsoft and Telstra will give Australian business a very easy and reliable way to integrate the Microsoft office communicator software with Telstra's hosted IP telephony platform.
30 By bringing together voice, email, instant messaging, unified communications, we should really be able to help companies reduce the hardware and maintenance costs they have, while improving overall employee productivity.

35 In many ways the products and services that we plan to provide are particularly timely. As companies look at ways to respond to the current economic uncertainty, the offerings from Microsoft and Telstra will enable businesses to implement solutions that help them to
40 operate in ways that are both more cost effective and more agile and strategic.

Ultimately our goal is to enhance the value that we can deliver to our customers, first in Australia - and I bet
45 we will learn some things that will help Microsoft around the globe.

We believe that the alliance will enable us to provide Australian businesses with a wider range of products and
50 services that are more affordable and really do provide the very latest in technology. For our business partners, this alliance will create new opportunities. As we have in the past, we are going to look for partners to work with Microsoft and Telstra to help

sell, develop, customise and deploy the solutions from our two companies. And we believe that these cloud solutions will enable our partners to strengthen the relationships they have with existing customers, and to
5 ramp new markets, particularly in the small and medium business space.

This new strategic alliance will build on a relationship that is many years between Microsoft and Telstra, and we
10 are certainly looking forward to a new world of close, close cooperation.

I am amazed. And I get to come here today and we are kind of at the kick-off of our alignment. I look
15 forward to being back here a year from now, and literally when I come, I will be demonstrating things that Microsoft is yet to offer in any other part of the world. And I want to thank Telstra for that opportunity, and I want to congratulate them on the
20 investments they have made that enable these kinds of unique opportunities for folks here in Australia.

With that, I'll say thanks to all of you, and we have a chance for some questions and answers. Thank you, all.
25

MR TRUJILLO: Since we do have Steve here and we do have a little bit of time, we will open it up for a couple of questions.

30 QUESTION: I wonder if you could please elaborate on the integration of the Microsoft Office software and the Telstra facilities. What do you have in mind in terms of an application for a small business or someone in the finance sector?

35 MR BALLMER: Think about it this way. Just project yourself first into your own business today. And I will be a little biased because I work for Microsoft, so let's hope it's my favourite kind of business. You run
40 Microsoft Office or maybe Outlook email software. Your company is probably running a data centre that has the back end software, Exchange. Maybe you are doing some collaboration, internal intranets run on our Sharepoint software, a big investment to set up and deploy that
45 infrastructure. If you're like a lot of businesses, maybe you are evaluating what we call our office communications software, which brings presence, it brings instant messaging, it starts to bring conferencing, and some other real-time communication
50 into the fold.

You are saying, hey, look, we would like to get the latest and greatest in all these technologies. There seems to be a big cost to upgrade, or we delay. I would

like to take out operating costs. And by the way, I like this real-time communications thing, but I would really like it to plug in and also be part of the voice infrastructure. Because right now it is now largely
5 independent from the voice infrastructure.

To which the friendly Microsoft-Telstra sales team would love to tell you, hey, have we got a solution for you; lower cost, more agile, new services more quickly; and
10 you can get that voice thing today. And whether you are a large financial services institution or a smaller business - this is one I would say Sol and the team pushed us on, because in our initial offering we were thinking of a thousand users or more. And the basic
15 feedback from Sol and team was, no, we are going to serve small and medium businesses.

So we have done a lot to accelerate, so as you get down to - I'm not going to say home-based businesses - but
20 the five or ten person architecture firms or whatever, I think we have particularly great solutions from this combined offering.

MR TRUJILLO: I agree with everything Steve has said.
25 And the nice thing is that we can do it across all platforms, so wherever you are, in the office, away from the office, et cetera. You are going to hear from Deena in particular, and she will talk about small-medium enterprise applications. And you're going to hear from
30 David Thodey who will talk about at the enterprise level; and then Holly is also going to talk about some of the integration in terms of how it is actually going to physically work. So we will bring this to life a little bit more as the day evolves here.

35 QUESTION: SAMEER CHOPRA, DEUTSCHE BANK: Good morning, Steve. Thank you for taking the time to come to Australia. I have two questions. Software as a service has been spoken about since 2003 or so, and I was
40 wondering if you can give us a feel for how demand for this has played out so far? A lot of the benefits from this alliance going forward depends on how you execute this on the ground. What arrangements are in place between Telstra and Microsoft to execute this?

45 MR BALLMER: Maybe I will go first on software plus services overall, and maybe Sol will pick the other part up. There are three levels at which you can think of software plus services. If you just project back to
50 other computing forms, there is the low level operating system, there is the operating system plus what I would call the most horizontal of applications - information sharing, email et cetera; and then there is vertical applications: ERP, CRM on top of it.

That lowest level will be the slowest to progress to a world of software as a service. We made an introduction last week. Amazon has some things, but there is not
5 clamouring demand, which is partly why we didn't focus on it in V.1. It is too early.

The third level, the applications, there has been some traction that has built up around sales force dot com.
10 We have a hosted CRM solution. But if you really look at it, there is so much customisation that winds up, where the customers wind up doing it at that level, that in a sense the number one issue to achieve greater agility deals with the customisation, not the cloud-
15 based instantiation.

I think the sweet spot, and the place where the market is really growing, is that middle level. We have globally today already almost 1,000 customers signed up
20 for mail or collaboration, some of the kinds of things we are doing with Telstra, signed up, moving in this direction. That's why we chose to focus in on that way, or for our initial efforts, and we can do the unique integration with Telstra around the voice stuff, which I
25 think is going to be fantastic.

MR TRUJILLO: Again, I don't want to be redundant, but the focus is in that space that Deena is going to talk about, Holly will bring to life again. Because we don't
30 want to waste time, we don't want to waste money, and pretend there are really good solutions yet. So again, I don't want to do their presentation - you will see more here today.

MR BALLMER: One more thing I would add. We have been at this thing for over a year. We have been working on what we want to do specifically, technically, how the Microsoft and Telstra teams would work together and support each other. Telstra obviously has a lot more
40 mass than we do in Australia, but we also have sales teams. So how do we plug in and reinforce others efforts? I actually think the ground work is as well thought through as the ground work ever has been with any partnership we have come to market with.

MR TRUJILLO: Discipline is important, because again, we only have so much time with the salesperson, so much time with the customer, so much time in terms of how we think about building, hosting, serving, supporting, all
50 that we have in the business. So this has been a lot of work, so it is not just, okay, let's go do something together.

One more question here? Christian?

QUESTION: CHRISTIAN GUERRA, GSJBWERE: Hi Steve. My question for you is, if you look at the average household today in terms of communications and entertainment, they might have maybe a broadband connection, a couple of mobile phones, television in terms of both free and pay television. Can you maybe share with us how you see that changing in five plus years from now, in terms of again the average household and how they communicate and entertain themselves from a technology perspective?

MR BALLMER: You gave me up to 10 years, did you?

QUESTION: CHRISTIAN GUERRA, GSJBWERE Well, you do run Microsoft.

MR BALLMER: Good, no, that's good. I can go wild if you're going to give me 10 years. Ten years from now, this is going to be an intelligent touch digital screen. Ten years from now, no question that's what this will be, with cameras and optical sensor built in, will recognise - if you want to go to a party with friends in Melbourne, they will be there, and you will tap them on the shoulder like you are physically in the same place.

And you chuckle, I see the little chuckle, but that's the way the world is going to work. You will be sitting there at home. Sol doesn't like to talk about the US as a mobile primitive market, and I give him a little bit of a hard time, but at least we get more TV channels. It will all be primitive. Ten years from now, anything you want to see.

I pick my favourite silly example. I have a 9 year old who plays American football, and there are crazy dads who do HD video recording of all of every game. You know, they just throw the stuff up on the internet. Hey, I will be sitting in my hotel in Sydney on an HD monitor watching live video feed of my son, and I'll think of that as a - I think he'll be 19 at the time - but I hope he is not playing, he's not big enough.

But anyway, you'll be sitting there watching. But anything you want, you will be there, and it won't be like you watch TV today. You will be watching and you'll say, hey, hey, Connie - that's my wife - hey, Connie, did you see Aaron do this? And my TV will wake up. Because there is intelligence someplace in the room. Connie, when he says Connie, he means his wife. Where is she? Is she available to be interrupted? Sure, for Steve, always interruptible. It will take her to exactly what I was looking at when I said what I said, and boom, there she'll be, and she will say, do

you think Aaron's leg looks like it is bleeding? And we will zoom in. No honey, that's the bandaid he put on yesterday, or something.

5 We laugh, but that's what we can think about doing with powerful, high speed broadband networks - and this is an area where I think every country, Australia included, has really to get moving - high speed networks, not just wireless, but wired; it takes a lot of smart software
10 and it actually takes the software approach that lets you think about the TV, the phone and the PC not as islands, each with their own communication systems. You don't want to have a buddy list on the phone that is separate from your buddy list at the TV, that is separate
15 from your friends list on the PC.

We have to bring that together; we've got to have the broadband infrastructure in place, and it has to get moving, and we have to have the partnerships across
20 industry.

Those are of the things I am excited about ten years from now.

25 MR TRUJILLO: I am going to break my rule of last question. We will do one more here.

QUESTION: Thanks. Steve, you mentioned mobile services and mobility as being one of the three key areas that
30 you are working with Telstra. In the business market obviously when Blackberry is still very dominant in that marketplace. In the consumer market in the past six months, we have seen Apple leapfrog everyone else, in terms of revolutionising user interface and advice
35 [unclear]. What can we expect from Windows mobile in the next 12, 18, 24 months?

MR BALLMER: A couple of things are important. First of all, I think to everybody who is doing good work I have
40 my hat off. There is good work getting done by Rim, there's good work getting done by Apple, there's good work by Microsoft, certainly there's good work getting done by Telstra and companies in other parts of the world. Everybody is racing, because we are really still
45 very early in the game.

This year there will be about 1.2 billion mobile phones sold around the world, and maybe on a global basis 100 million smart phones. Because of the work Telstra has
50 done, Australia is a little different. You will see a much higher percentage of smart phones in this country than you would in a lot of other places. But still most of the innovations in front of us. We have been trying to take a broad approach. That's why we don't build

hardware, we only build software.

We like to have smart software that ranges from low cost devices to high cost devices, from the business market to the consumer market. And in a way life is simpler, and in a way we have seen good work done on that approach from Apple and Blackberry. And, as I said, I congratulate them. But I also know that we sold in the last year, our partner sold almost 20 million Windows mobile devices, more than either Apple or Blackberry. It's a little bit more what I would call lunch bucket; it's not just high end very expensive stuff. And with releases we will make this year, releases we will make with Windows Mobile 6.5 next year, Windows Mobile 7, I think we have a pretty interesting road map, and certainly one that we are really excited about our engagement with Telstra on.

MR TRUJILLO: I would add to Steve's response. Because he's in the software business. And I would say because of what we are announcing today in terms of future collaboration, we are very focused on what segments of customers need, not just what everybody in the world simultaneously needs exactly the same.

And that's part of the strategy that we've employed. So when we talked to Microsoft, we're talking about, okay, how can we enable an even better kind of experience going forward? And I think we will see when we get to market with some of the work that we're doing with Microsoft. You know the game isn't just won by one company, the game isn't just won by one platform, the game isn't won by just one device, because we're all different.

And that's the great part of, you know, life and competing in the business world. Somebody does really well, and Apple did. They created ease of use as kind of a new breakthrough within the device manufacturers, and the software enabled faster response time, less latency than what you see in other devices.

But that's only part of the customer equation. We're spending a lot of time researching what customers really want, by segment, and the things that will generate revenues, in addition to just kind of interesting features.

One of the things that I talked to Steve about when we were having this conversation a while back, is that depending upon where you are, and what the device is, my needs might be different. When I'm sitting at home in front of my desktop and I have an hour, my requirements

are different than when I've got 30 seconds, I've got a five minute break, I've got whatever it is. And how I might want to get to things may be different.

- 5 So this notion of understanding markets, understanding customers, understanding segments, I think is going to be the next layer breakthrough, where smart people, smart companies, can enable that, as we look to integrate that experience wherever a customer might be.
- 10 I think that's going to be the next big breakthrough that you'll see evolve over the next 12, 24 months in that space in the marketplace. Okay?

- QUESTION: Just in terms of the competitors you mentioned there, one name that wasn't there was obviously Google, with the impending launch of obviously G-Phone with an operating system. Can you just give us a feel in terms as how you see Google as a competitor within the mobile game, in terms of operating systems?

- 20 MIKE WRIGHT: Google hasn't - this is their first phone. They're not easy. Let's see how they do. They can hire smart guys, hire a lot of people, blah de blah de blah. But, you know, they start out way behind in a certain sense, and we will see how they do, and I'm not giving them a hard time.

- I don't really understand their strategy. Maybe someone else does. If I went to my shareholder meeting, my analyst meeting, and said, Hey we just launched a new product that has no revenue model, yeah, cheer for me, I'm not sure my investors would take us that very well. But that's what Google is telling their investors about Android, and if somebody thinks the formula is, you give away the operating system to get search, the operators are much too smart. They know they can still ask to be paid to carry your search. I know that. Sol gave me a lecture about how that really should work in the mobile industry.

- 40 So I don't get the business model. Their sort of early version. And at the end of the day if there isn't a business model, they're not going to put in the same kind of investment to improve the product. I'm not saying they're not going to be a factor, but you know we're in a world with Apple, we're in a world with Symbian, we're in a world with Blackberry, we're in a world with Linux Mobile, it's called.

- 50 Google doesn't exactly bubble to the top of the list of the toughest competitors we've got going in mobile.

They might some day, but right now I think we spent some time in that last question talking about the guys who look a little tougher to me right now, and we will see what happens to Google in that fight.

5

SOL TRUJILLO: Let me answer as an operator. My view is, is that it's interesting, not compelling, not anything at this stage from my perspective. Because again from what I said in the last question as to how we think about customers and evolution. The other side of it is, is that again it's a complex game.

You know, I would say that Apple is finding out generation one, launching a device that has advantage with touch, and a reduced latency, there's other issues that they've had as well. And yes, first generation you make the sale. The question is when you get into the second, third and fourth generation, is when you think about sustainability of a company and how good they are.

20

The degree of complexity, when you talk about communications, when you talk about the software issues, I mean, we are really having to wrestle with lots of issues that most people don't get to see, but when customers call us with, This is not working, that's not working, can you fix this?, they bring it into a shop, you see it in terms of its capability on certain networks, at certain spectrum ranges at certain everything, you know, it takes a lot of resources to be able to manage all that.

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It takes big investments to be able to be good at it. And that's kind of the question, and I think, you know, Steve's premise there that says, well, if you don't generate revenue, and it's going to take a lot of money, resources, how sustainable is it, it's an interesting question.

35

SOL TRUJILLO: We're going to move on to the next piece before lunch, and it's an important piece that many of you have asked a lot of questions about. Let's talk about our IT transformation, let's talk about TR 1, let's talk about TR2.

40

Before we get started on that, and as I bring up the folks that are going to talk specifically about that, I'm going to make a little announcement to all of you that we're releasing, I think now, or will be releasing internally in our company - and that is that as of essentially today, Tom Lamming will be appointed as our

50

senior vice president, transformation, or IT transformation.

And as you know, when we started the whole
5 transformation business, Greg and I asked Tom to come here and essentially lead that, and he agreed to come and do that as a consultant initially, and then we convinced him to stay on and do some of the leadership work. And then along the way we also asked him to kind
10 of be the CIO, and Tom said, this is a big job over here. And we said, but Tom, would you do it? And Tom accepted doing it, and he's done a terrific job doing both. But all along we knew that we needed to get a full-time CIO in place.

15 And in that process we've had the opportunity now to take a look at some of our people inside the company and some of the people outside the company that have tried doing some of the things that we're doing today. And
20 made a decision to promote a person by the name of John McInerney to the role of CIO of Telstra.

So John, I'd like to congratulate you. I'm announcing it to all of you that are here in the room. John
25 McInerney will be our new CIO. Tom will continue to be in charge of our transformation, and John will be reporting to Tom. And Tom's reporting relationship to Greg won't change, but now we're going to have clear distinct roles and responsibilities here. And I think
30 it's terrific, so I'd like to ask all of you to help me congratulate both Tom and John.

So with that, I'm going to ask Tom and John to come up and talk about our IT transformation, along with David
35 Moffatt who Greg talked about earlier, as the business partner. Because the approach that we've taken was, this is not just an IT set of events; this is a business process change. So Tom, John, congratulations.

40 TOM LAMMING: Well, thank you, Sol. Following Steve and Sol's discussion here, I'm going to bring you from ten years back to the here and now. A lot of what Greg refers to as the plumbers, and I refer to us as the people who are in the engine room of a major ocean
45 liner, we're down there making the engine run so the captain at the helm can run the ship and we move forward from there.

50 So today, we're going to talk to you about how we've delivered to our IT business-enabled transformation promise. Make no mistake, the solution, the CRM, TR1

solution, is live and working at scale. You know, John and I will talk a bit more about the IT portion of the program, and for what we've delivered through the current times, as well as a view to next calendar year.

5

My partner, David Moffatt, who runs the consumer side of our business, will talk a bit more about what this means to our operations, our employees and our customers, and also a view to how this enables our strategy going forward.

10

You will also hear a video from some of our employees, our business partners, and a customer at the end of our presentation here. I will take a moment to reflect on my 30-plus years of experience in working in the industry and other industries, as well as with telecommunications providers around the world.

15

This is by far and away the most complex undertaking that I've ever seen, not only within the IT systems, but with the multiplicity of thing that are going on. We are changing out spaghetti systems, processes, data, which have been built over years, decades really, and we're doing that all at one time, in terms of an integrated solution that we're delivering at scale. And we are delivering it at scale, and it is operating with minimal disruption to our operations and to our employees, our customers.

20

25

So let's take a quick look, though, as we move ahead in terms of where we stand. And I want to take a quick look back at some of the things that we've done along the way. We've focused a lot on the TR1 solution, but it's easy to overlook, as we do, the many accomplishments that we've done over the last two to three years.

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If we look at, for example, within our legacy environment, we have delivered over 1250 new campaigns and products. We've delivered over 465 business initiative projects over the last two years. These have been done 90-plus per cent on time and within budget.

40

We've also, as the screen shows, this highlights a number of the initiatives that we've done that are also creating momentum in our business and creating some early wins. We have the IP activation platform that was alluded to earlier, that accelerates the delivery of our IP activation services.

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We've integrated through our NBN an integrated campaign management system for our retail side of the business, the integrated desktop in partnership with Microsoft, as a matter of fact. Enterprise program management, which
5 manages all our major capital spends as well as our one plan property.

In addition to this, we have supported our network folks within the factory, and the service delivery platform.
10 And all of this has created momentum in the business and some early wins for us.

As we turn now to look at our mass markets business, by every measure we are operating at scale today with over
15 6.3 million customers on the platform; 11.1 million services running with those 6.3 million customers. By the end of September, we achieved a 5.3 million customer delivery, surpassing the target that was set in August for that timeframe of 5 million customers. And we are
20 very confident that we will deliver to the 7 million customer objective by the end of the calendar year.

The mass market. CRM and billing solutions is now fully deployed across all aspects of our business, front-of-house, back-of-house, retail operations, Telstra
25 services and finance, in support of our consumer and small business customers across the core of our products that we serve for wireline, wireless, broadband and Foxtel.

30 We are processing at, or near, full production volumes. To date we've processed over 1.3 million orders through the new systems; 11.3 million invoices and 10.8 million processes. Each day we process close to 200-plus
35 million network event records each day, and process and post to our billing systems over 20 million call records each day.

In concert with the business we have successfully
40 delivered to our mass markets promise and represented by these kind of volumes we are clearly operating at scale, again, with minimal disruption to our customers and to our operations.

45 Our IT program represents one of the largest programs of its kind in the world. This program goes well behind an IT fix. It's legitimately a full-scale business transformation. We have followed, and many of these transformation programs that we look at fail, and
50 there's a variety of reasons for why that is. The reason for our success is that we follow the full-scale

integrated delivery model, working closely with the business led by David Moffatt, and with our strategic partners from software, hardware, services.

- 5 This approach has embraced a multi-year program, integrated program of change with some key attributes that have been differentiators for us. Those include: we've had from day one engaged leadership from the top; we've had a relentless focus on our customers, their
- 10 needs, their expectations; we've had an urgency, a compelling urgency, for change, outcome-based and with IT and business linked together at the hip along the journey.
- 15 Our journey most recently delivered an integrated solution of world class proven solutions in support of our mass market business. The business side development, including things like new processes and training, deployment readiness that included millions of
- 20 customer notifications and 21,000-plus user desktops to get ready for that as part of our deployment.
- We've sustained our promise of leveraging the out of the box solution for customer care and billing, with the 80
- 25 per cent standard that we set on day one. We've run parallel streams of work to deliver to, as part of our migration planning, and in delivering new infrastructure. Which was - these are major undertaking in their own right.
- 30 We've worked with 12 strategic providers along the way, across 17 cities, in four continents, which is also a major logistical challenge.
- 35 As we think about this, one of the challenging efforts of this program has been how we've tackled the systems. Instead of dealing with the application or product verticals, which is traditionally done in the industry, you'll see where they tackle a broadband vertical and
- 40 first start there, we tackled an end to end set of solutions, where we tackled PSTN, wire line, wireless and pay TV through our Foxtel integration, all at one time.
- 45 This was central accord to the delivery, of which we did and it maximised the return that we would get in terms of the customer service and operational improvements that we expected out of this. This can be seen in terms of how we fundamentally changed the business, in terms
- 50 of the tools and capabilities that we gave our employees. They have a single source of customer data,

in terms of what they can access online. They can see all their customer assets, products, as well as all the interactions through online notes.

5 We have a single bill in terms of what we delivered to the customers. We have a single product file in terms of what we used to access order provision our services. We have integrated campaign management system and more, all delivered as part of this capability. David
10 Moffatt, in his remarks in a few moments, will expand a bit more on this. But at this point I'd like to turn the conversation over to John to talk a little bit more about the IT program. John?

15 JOHN MCINERNEY: Thanks, Tom. As you've already heard, we've implemented the core systems. We've got Siebel for our CRM customer care; we've got Kenan out there for our billing. Okay, you've heard a lot of how we got there and what it took to get there. I'm going to take
20 you through a bit of the detail today as to what effort has gone in behind about putting out this transformation. And I want to also talk about the fact that there's a hell of a lot still to come. There's still a big program of work ahead of us, and it's going
25 to deliver significant more benefit back into the organisation.

Over the course of the last two and a half years, we've staffed over 20,000 requirements in building at our core
30 customer care and billing, including a part of our OSS as well. So far we've implemented changes to 175 unique applications, and 625 unique interfaces over that period of time. As you heard earlier, we've passed over 95,000 test cases.

35 Now to support this, we've also delivered a lot of infrastructure, and we've delivered over the course of the last two and a half years, 4700 square metres of new or upgraded data centre facilities. We delivered 380
40 projects, primarily focused on infrastructure, 700 Solaris domain servers, and 200 Wintel blade servers. All in all, we've also stood up about 5,000 terabytes of storage across multiple platforms.

45 Before all this went in, it had to be tested before it went into production. It has been a significant exercise for the entire team.

50 What you've heard a lot about over the course of the last 12 months has been around the customer migration. And there's really key aspects of the customer migration

you have to get right. And you've heard from Sol and many others in terms of we're working at scale, and we followed process to get to that scale.

- 5 Greg also mentioned the fact that as we go through it, we have to take a lot of care and attention in getting to where we are.

10 That includes the testing we have spoken about. It includes the cross-business unit support that we have had in place from day one; but really critically has been this proceed decision framework that we have had every step along the way.

15 Importantly, we have followed a really tried and tested process to mitigate risks to the business. We wanted to minimise the destruction of our customer base, as we went through this whole migration process. And in doing that, we did staged migrations over the course of many
20 months. We have done a whole of customer approach where we took a customer in its entirety across in one slice. In every step along the way we have done a lot of process validations as well.

25 So, I'm going to give a quick background as to what migrating a customer is all about. Firstly, when we migrate a customer, we migrate across their customer details, their billing details, and all their service instance and product details, and discounting, and we
30 have to do it from multiple sources.

When we look at a customer, we assess a customer for their eligibility to bring them across. We look at their bill cycles, their hierarchy of accounts and
35 services, and do product portfolio in terms of bringing it over, and then allocate them to a roll-out group.

The data is then put through a series of transform jobs over the course of a weekend, and we run LT validations
40 of the data before we bring it in. Then when we load into Siebel and Kenan.

Overall in migrating customers to date, we had to identify data from 1200 different sources from 14
45 different legacy systems. We had to define over 3400 rules to be followed and executed by 700 jobs. And to minimise disruption to front-of-house, we have had to do it fast.

50 We can process 800,000 customers in a 12-hour period and process it into Siebel, which has been one of the key aspects of the program because it minimises disruption at front-of-house.

At the same time we have been deploying and training. We have deployed the solution to 1900 internal and external dealers, licensed shops, industry partners, and we've also done training for just on 17,000 staff. It hasn't been without its challenges, without question. But what we have proven is that when you take a prudent, responsible approach, the only way that it will work, and combined with the multi-level engagement of the business, then you see that we interact every day in every stage, to get this thing across the line.

It is all about simplifying. Yes, we do recognise the irony of how complex a simplification can really be. We are also now deploying an IT capability that will service all parts of the business. David Moffatt will provide shortly a bit more detail about the specifics of what this looks like. And we've already covered a lot of what we do around in terms of the billing and sales and customer care that we have already got in place, and running at significant scale.

We have also deployed platforms covering the enterprise data warehouse, customer service assurance, network service assurance, and network planning. Tom mentioned some of those items before. These platforms are in production right now. You don't hear as much about them as our Siebel and Kenan, but they are in production and are providing benefit to the organisation.

We are going to continue to expand those platforms as we deploy them further in the organisation and through the networks. And I am also going to talk shortly about how we are going to deploy further LSS to support what the organisation is trying to do moving forward.

As Tom mentioned, the program we are running is one of the largest programs in the world. Our capital spend envelope will reduce significantly on '09-10 on the back side of the original program. And despite the size of the program, we have been able to absorb growth in areas such as product growth, increased marketing analytics, the new hosting products, the old Ceder increased volumes based on what you have heard today those volumes are processed through the IT systems. And contents storage was a major growth area for the organisation as well.

We also continue to decommission our systems. You have already heard the numbers: 365 through last year. We are currently at 385, and we're heading towards another 100 for the course of this year.

Following the broadband OSS deployment in '09-10, we are expecting the IT OPEX budget to reduce once again. This

is based primarily around further decommissioning, and the cost takeout programs, including data storage, shared hardware, and a consolidation of lot of our AM agreements.

5

We continue to deliver on objectives. For us the journey continues, and we have got a lot ahead of us as we move forward.

10 In terms of volume, the mass market has always been a major migration and aspect of this program, and it is good to have it in place. This is a great thing to have locked in and loaded, as we come into the next stage of the program. We've still got further significant
15 deliverables coming, including significantly enhanced assurance and fulfilment capabilities. And that is the core to our overall OSS strategy.

20 The key area of focus will be mobiles OSS in the fourth quarter of '08-'09, which will be followed by the migration of approximately 3 million prepaid mobile services. '09-10 sees the focus move to broadband, and we will extend the capability and migration of service level data across all of our broadband services as well.

25

I am now going to hand over to David, who is going to talk about the focus on the business transformation taking place at the same time.

30 MR MOFFATT: Thanks John, and congratulations. Few people get tested as much as you have been tested for your role as CIO. But having watched you develop over this period of time, it is great to have you at this level, and you have done an outstanding job.

35

As Tom and John have said, they have given you a feel for the scale and the complexity of the IT changes that we have made. I am going to now share with you about how we managed all of this change in a business context,
40 and what it all means for our customers, our staff and our shareholders.

First of all, whilst transforming our IT capabilities is clearly critical, we still had a business to run. We
45 had results to deliver, and you may have noticed that Sol is not backing off under any circumstances from what our commitments were back in 2005.

50 As I will describe in a little bit more detail today, a little later, the consumer business has continued to deliver strong, top and bottom line growth during this period of business transformation.

Consumer strengths across all product categories were

reflected in the financial year '08, with revenue growth of 5.3 per cent and our EBIT contribution of 7.6 per cent. Our sustainable business model has continued to deliver during a period of what is clearly massive
5 change, with consumer moving ahead of all the market trends and our competitors, and achieving positive customer and revenue growth while operating at lower unit costs. Very few IT transformations succeed in
10 delivering their anticipated results, and many of you have been sceptical about whether we could manage this. But we have learned that success is driven by a few key factors.

From the outset, our IT transformation has been a
15 business transformation, undertaken in true partnership, with Tom and John and our other IT leaders, and of course the operating unit leaders within the business. That is not to say that this has been easy. In fact, partnerships of this nature are fundamentally difficult.
20 It requires commitment, it requires trust, and it requires leadership from the top, particularly during times of intense pressure - and there have been many, many of those - and to make all of the right choices that have to go on every single day.

25 So how did we do this? Well, we worked on this concept of a partnership. You heard about the power of external partnerships. They are equally as important in running a business as complex as Telstra. We discussed issues
30 every day. We made choices every day. We stayed focused on outcomes and results every day.

This partnership wouldn't have succeeded without a number of core elements: leadership and support from the
35 CEO and the board; an agreed multi-year plan with the funding to match; intense operating focus; consistency of leadership. The team who announced this transformation are the team that have actually delivered it. Ownership, end to end.

40 In the end, the success of this business transformation is all about the detail. Let me just repeat that. It's all about the detail. Transformations are not PowerPoint presentations. They are people with detailed
45 knowledge, real skin in the game, interacting at an intense level, around the clock. It is people with the right ability to ask the right questions, and that can only come from detailed knowledge. And it is never being satisfied with a partial answer, and it really is
50 understanding what's driving things, and more particularly, why.

This is true operating engagement, and it means getting involved and making tough decisions, and being

consistent, and keeping everyone - and in this case, it was a very, very big team - focused on the endgame, and being literally available 24 hours a day.

5 Of course throughout this transformation, the customer has been the core of it all, and our primary objective always was to improve the customer experience with Telstra.

10 We knew that wasn't going to be easy, and we knew we had a lot of improvements to do. And during the migration, we had to manage the customer experience, because stuff happens every single day. But by putting the customer at the core, we started to think about how is this going to impact the customers? What will they see? Does it
15 actually make it easier for a customer, or not? And does it make it easier for our people?

Let me just show you some of the ways that we've made it
20 easier for our customers, and for our people.

So what has changed? We have fundamentally changed the way in which we deal with customers, by providing our consultants with a single view of the customer. Some of
25 you had the benefit of a demonstration earlier this morning, so you really saw this in action, from Jamie and from John.

To do a fully integrated sale, previously a consultant
30 had to fill out a customer name and address six times. Now they complete it once. It sounds simple, but is complex to execute. For a four product sale previously, a consultant had to deal with up to 82 screens, seven applications, 300 clicks - 300 clicks. That means that
35 we had people who were systems heroes operating in our call centres and our front-of-house, not customer heroes.

Today they can do the same thing so much simpler: two
40 applications, maximum of 30 screens depending on how complex the order is and how many products it is, and much, much fewer clicks.

What do our people say? Well, this is the period that
45 is toughest, because we are going through the embedding process. But our toughest critics are generally our licensees, and one of them recently said to me: We can now actually truly see what services a customer has completely with Telstra, and this helps us from a sales
50 point of view and an opportunity point of view. But more particularly, it helps us satisfy and to serve our customers better. That's great for us to hear.

With so many less screens and systems to use, once full

proficiency is achieved - and this is a very important point - you don't arrive at full proficiency. If you suddenly change from the left hand side of the road to the right-hand side of the road in driving, you have to think about it a little bit. You suddenly think about getting a remote control, Foxtel IQ, you look at it, and you go, that it looks complicated, until you start using it. And then you realise that you had seven or eight remotes that you used to have to do, you don't any more. It is exactly the same thing.

Once again, from a licensee position, Siebel takes significantly less time and effort to get started. Importantly, our consultants will be able to see what has happened with the customer in their previous contacts with us across all areas of Telstra, so we can actually resolve an issue quicker and avoid many of the issues caused by multiple systems.

By any measure we have radically simplified the way in which our consultants deal with customers. By giving them an easier way to deal with customers, we have also freed up so much more of their time to focus on what's really important, which is actually serving the whole of customer needs in a segmented way.

Many of you thought about market-based management too, and you've said, when is it going to be real? When is it going to be at front-of-house? This is what enables it. You couldn't do it before in the same way that we can now. Of course we could do it for outbound campaigns - and we'll talk about that - but imagine the power of inbound campaigns.

There will be fewer transfers, and all of the customer information available to the one consultant which means that they will be able to speak to the one person about all of their sales needs when they call in.

With any transformation, there is a period of transition between systems, a time required for consultants to become proficient in the new system. You are going to hear some squeaky wheels, I am sure, but we are clearly in that transition period now.

Tom and John have shared with you the customer and the service volumes that we have moved to the new system. This is all about scale. We are clearly well through the movement of the consumer base, into the new system. And we have commenced the removal of the access to the old systems.

In fact, in one of our call centres, we are only using the new systems, and about once every week we roll it

out, so that the other centres just move away from it altogether.

5 This day is about a proposition that we have had about improving operational performance too. You have heard about, well, how is the cost going to come out? You are going to hear some more about that this afternoon.

10 In terms of operationalising this stuff, the establishment of a daily rhythm of monitoring, of tracking errors literally to an agent, of following it all the way through, and once again partnering with our IT partners in an integrated way to work out was it a people problem at front-of-house in terms of execution, 15 was it a process problem in the way everything connected together, or was it a system problem that we needed to take action.

20 A lot of stone throwing goes on between IT and the business, but that's because they don't have to live and breathe it every single day. We do, we do. It is another way in which we are partnering to strive for this concept of operational excellence.

25 As an integrated provider, we are now giving all of our people an integrated platform, from credit through to business and consumer call centres, and through our shops and dealers. Every single point of sale is now able to sell every service, and/or provide a truly 30 integrated experience for our customers.

Our new bill is a very visible reflection of just how much we have changed. The new bill is simpler, clearer and easier to read, and it saves paper, lots and lots of 35 paper.

We have now notified some 6 million customers about the new bill, and we have sent 11 million new bills out, with less than one and a half per cent of customers 40 requiring any further information. Customers have voted, and the option they have chosen is to receive a summary bill, rather than a detailed bill. And that's great, they have got choice, but they have chosen a summary bill.

45 Importantly for both customers and consultants, the new bill can be viewed on line by the customer, and it looks exactly the same to the consultants as it does to the customer, enabling quicker and simpler resolution of 50 questions.

Our new systems are also improving our ability to market to customers, and this is really where the power of the whole market-based management, IT transformation,

operational excellence comes together. Using the whole customer view, plus tailored offers that are literally individual in terms of what we intend to do in terms of being able to offer and tailor them for a customer, and adding to that the customer's propensity to buy our products.

We have invested in market-based management and understanding what customers choose and when. And this allows our consultants to identify and discuss the best offer to meet the whole of customer needs. Our marketeers are now using this capability to design offers which meet the whole of customer needs. Our consultants are using the capability to be more targeted in their conversations, words that work.

This has continued to be a business transformation, but with our IT partners we are delivering an improved customer experience, and a much simpler and easier way to use everything that we do and enable for our consultants, our people.

When we bring all of this together, we can see that we can continue to provide improved sales results, lower operating costs, and shareholder value.

Let's hear from some of our some of our business partners and our employees on their perspectives on this business transformation.

SOL TRUJILLO: We're going to have a chance now for Q and A, because this is a topic that many of you have had lots of questions on over the last couple of years.

As you can probably see from the comments of people who don't work for Telstra, that we have probably done - well not probably, we have done something by the end of this year that nobody in the world has done to this point, but it's just stage 1. And there's a lot more to this IT transformation than what we've talked about. It's got other stages, TR1, 2, 3 and probably TR15. As someone asked a question earlier, when we think about cost take-out, when we think about the evolution of productivity, revenue productivity and other things, that's all part of the ongoing evolution of the business. So I'll start first over here with Ian.

IAN MARTIN, ABN AMRO: Thank you, Sol. You've made the point that NBN investment is conditional on there being no separation. Surely the same issues apply to a large extent to the IT component of business transformation? Or is there an easy way, if one of these crazy separation models gets up, that you could draw a

line between the kind of systems that sit, say, in the network side of the business versus the customer side of the business, or is that a scrambled egg that you can't unscramble?

5

SOL TRUJILLO: The reason why Greg first used the word "stupid" and then I put a capital S on the word "stupid" is just what you said, Ian. The people that you know, the competitors of ours and others that promote these ideas, they don't understand the complexity that's involved here. It's not only the network complexity, it's the IT complexity.

15 I went through a major separation back in 1983/84, it was called the AT&T divestiture. It took us three/four years to actually implement a decision that was made in 1981, because we literally had to physically inventory assets, target assets, then figure out and actually build new systems. Because a decision is made by a regulator or a government or whoever that says "Do it" doesn't mean that you can do it, it just means that somebody's thinking that something should be done.

25 Then you have to go bill processes, systems all that sort of thing. So the short answer is no, you can't unhook it. We've built this whole TR1 capability and TR2 designed on an integrated business model. That's the strategy that you heard me articulate back in November 2005, and it continues today. So that's why when you look at BT, it took two, three years for them to even make it operational. That's why if you look at New Zealand, it's been two years since they passed legislation, still not implemented. Now we operate over there so we know what's available and what's paperware.

35

And so you know this is all real stuff. So you know when I think about all of this, you know it's important to ask questions like you just did, because people need to understand implications of decisions. On the other side, the good news about everything that we've done so far is, the great news is only customers decide who they do business with, regardless of what regulators think, what governments think, even what companies think. We have to earn that business. And so creating the customer experience, creating the products, the services, the capabilities, is really part of the story here.

50 IAN MARTIN: Are you able to put a figure on part of that IT transformation cost that might be lost, you know of the OPEX and CAPEX you spent on transformation, what

would be lost if we did have the separation model?

SOL TRUJILLO: To be quite frank I can't give you an answer, and I don't think anybody here on the stage can
5 give you an answer because we don't spend our time thinking about it. It's very imprudent, it's very impractical, and this is again, Ian, why no-one in the world, including in the UK, have implemented some of the proposed separation sub-loop unbundlings, and all that
10 kind of stuff, that gets put into paper.

RICHARD EARY: Two questions. First going on to Next G, in terms of the road map, in terms of devices, obviously I think the launch of the dongles on 21 megs, and early
15 next year, can you just give a feel in terms of what the road map is going to be actually for physical handsets? So far as I'm aware, we're still quite away from actually getting 21 megabyte handsets in the market in terms of mass scale.

20 The second question was just on forex implications. I mean clearly with the way the Aussie dollar has moved, I don't know whether you can give us a better feel in terms of how that implements or affects the
25 transformation plans over the next couple of years in terms of procurement from suppliers, obviously Bright Star, some of the contracts have been hedged going forward, but outside of that, but also from the equipment side, a lot of the actual purchases are done
30 locally in Aussie dollar contracts. Do you get a sense that those will get reversed if the Australian dollar continues to be weak against some of the other major currencies? If you can just give us a feel for those two things that would be great.

35 SOL TRUJILLO: Richard, I'm going to be - I know it's not going to make you happy, but there are certain things we don't want to talk about because we don't want our competitors to plan for what we are going to do.
40 The first part of your question, trust me, we will have devices in addition to data cards and dongles and whatever piece parts. We're not deploying 21 megabytes alone for the network efficiencies, but we are deploying it for real consumer benefit in use.

45 Now you've seen with the wireless broadband growth and the numbers there, there's a huge appetite for more speed and more speed and more speed, so that I can be more productive, more productive and more productive.
50 So that's clearly on the road map that this guy here, Ross and Holly, are focused on in terms of what we do.

So we are not only working with companies like Sierra - and they're here, and working on the kind of dongle data card side of things, but we're also working with the
5 companies that are the handset manufacturers. And we wouldn't be doing this if we weren't going to be delivering that as well.

And I guess the last part, just to make it obvious
10 probably what you already understand, is once you have the chip set, which is where, you know, we've had Qualcomm very aligned with our vision on the road map, not just for this release, but future releases, it's all been orchestrated as you have seen over the last two
15 years, it's all been orchestrated in terms of that road map.

So yes, we will have devices, yes we will have all the things that Ross showed this morning, but I'm not going
20 to tell you when because we like competing to win, okay.

Now on the other part in terms of the procurements and some of the currency implications on decisions that we've made and all that, I'll turn it over to Greg.
25

GREG WINN: In terms of our baseline transformation, we're pretty well protected on that because of the stage we're in. We're three years into a five-year transformation. Contracts are locked in. You know the
30 major capital purchases are basically behind us in terms of infrastructure.

Where there would be issues, and this is the price that's paid in things like drawn-out stuff like NBN and
35 all that, is obviously the NBN, whether it's us or anybody else, is going to be impacted by the FX rates because of the way the Aussie dollar's gone, and that equipment, none of it, regardless of who would build it, to the best of my knowledge is manufactured in
40 Australia.

So it's going to ripple through manufacturing, shipping, the logistics of it. It's all heavy reels of fibre and these big boxes of nodes, you just don't throw them on
45 airplanes. They're going to have to come over water and a long distance, so all the logistics that is associated with it, the costs and the delays that have been in this process now are going to have substantial impacts on the costs for anybody because of FX.

50
SOL TRUJILLO: Did we answer your question?

RICHARD EARY: Yes.

5 LAURENT HORRUT: Could you clarify the relationship
between the number of services migrated and the number
of customers migrated? And what is the end target in
terms of services migrated? That's my first question.

10 Second is a question more for you, Sol. On the NBN, the
things you're saying around the issues of separation and
other issues, the impression I get is there is a risk
that when again the stand-off with the government. Is
that a fair assessment, is that a risk in the stock at
the moment?

15 SOL TRUJILLO: Well, I guess I don't know what the
government is going to do, so let me be clear. When we
talked about separation and sub-loop unbundling, and all
that, that's not coming from the government; that's
20 coming from our competitors, and that's coming from
other people that think that they understand how
networks work, and other things, that have never
operated anything. So that's where we categorise it.

25 So when you talk about your stand-offs with the
government, as far as I know, the Prime Minister still
has his vision, still wants to get it done, and I'm sure
he's looking to the communications minister to help get
it done, but things happen along the way.

30 Number one, we need clarity. In case anyone hasn't
noticed, the financial markets are a little bit
different right now than they've ever been, probably
since, you know, the early 30s, and I'm talking about
35 1930s. So the issues for all of us, credit ratings,
cash flow, predictability, dividend stabilities, all of
the things that are part of questions that a lot of you
have, were going to be absolutely clear on, and people's
ability to raise capital and use of capital is
40 important. Currency shifts, pricing, production, if you
look at all of our suppliers, read what everyone is
doing right now. They're cutting back on production.
Their manufacturing, their inventory, everything is
being taken down dramatically. So at a point in time
45 when somebody makes a decision to go, we can't call
somebody up and all of a sudden they ship. The prices
that they're going to charge are not going to be at
scale volume that they were at before. They are going
to be at lower scale volumes that they were operating at
50 before.

So all of that is important for everybody in this room to understand. Costs have gone up, risk has gone up, degree of difficulty has gone up, and time frames will be affected where before, when we first proposed all of this, we knew we could get supply, we knew we could get stuff delivered, we knew therefore in what time frames we could operate. All of that is now got a big question mark.

10 So how the government deals with it versus what I would call people that have an agenda or people that think they understand but really don't and their agendas, versus what the government wants, I can't speculate on until they make their decisions. Again, you know, my
15 view is it's ultimately the Prime Minister's decision.

DAVID MOFFATT: The customer migration question: the answer is, all of them. All services will move and the relationship between why you have a customer and you
20 have different services is because some customers have more than one service. And good news, we've been growing penetration of two and three product and four product customers, and that's one of the things that have made this so complex, because we've been migrating
25 people and you have to start and you have to get it done and if you think how far through we are with this and how we have provisioned and continued to sell while we've been straddling multiple systems, it really gives you an indication of what with we've been dealing with.

30 But what the power is when we get into a single system and all of the customer records and opportunity is right there, and we can present that in a very clear and simple way to our customers - this was David Moffatt.

35 MARK MC DONNELL, BBY: In that last session we had a lot of emphasis on improvements to customers from the changes that have been made. Yet fairly recently we've had a TI0 report that has signalled deterioration in
40 service standards and metrics that have moved adversely from a customer experience viewpoint. I'm wondering if we could delve into that a little and try and understand to what extent that is, in fact, based on one-off factors, factors that won't be repeated, and the extent
45 to which the actual transition process that you've been through has been a direct contributor.

MR MOFFATT: There have been a number of one-off facts that have played out. We've had floods in Queensland
50 and whenever you have multiple services outages that come from natural disasters, you do get a rise in these

things and there are prolonged time lines that obviously have to be addressed.

5 We also have the CDMA migration, and that was an area where lots of people said, you know, gee whiz I'm not sure I'm happy about this. And they thought their right of appeal was to obviously have a conversation with other parties in the process, and that had to run its course. We've also got some industry-wide things going
10 on, not just affecting us, but other operators too, like premium SMS, which has been a very bad thing for customers no matter who the provider has been, and those systemic issues are being addressed.

15 In our case we're taking very direct action and cutting those people off because of the impact on customer experience. And then there's been the things that we've done to ourselves and as the, you know, the operating guy responsible for the consumers, I'm not happy when
20 that isn't right.

When I isolate the one-off factors to your questions and get to the specifics, we are not seeing a material shift as a result of anything we've done to ourself so far,
25 all through this process, which is remarkable. But I certainly see lots of different types of people going through and using that avenue.

We've worked with the TIO to make sure they've come back to us and we have a chance to resolve it as well, which is another important factor. But my expectation is that customers will always have a choice as to where they go, and we will always put them first in trying to solve it; and clearly we've got the view that, you know, any
30 numbers going up on TIO is bad.

SOL TRUJILLO: Let me just add to that. Two things. We were going to work with the TIO office in terms of, you know, digging deeper, giving them data, and we're going
40 to look at our own data and do our work that we need to do.

But what David has said is right. We have had a series of one-off kind of events and then there are some
45 industry things, with these complaints of premium SMS, and other things that are stimulating irritation in the customer marketplace. The other side of it is that we also, and most importantly, we do our own research. We do what we call customer value attribute research
50 continuously, and what we are seeing with all of our research is customer satisfaction going up. We are not

seeing any dips or any downturns. When you have a shut-off of a CDMA, and when you have flooding and other events, it tends to distort it. We don't take it lightly. We are very serious about it and we will work
5 with the CIO's office in addition to what we do in terms of what we do every day.

MARK MC DONNELL: Have there been specific things in the change process that has caused customers to push back, such as loss of record details on bills, for example, changed formats, other teething problems?
10

MR TRUJILLO: I would say in a material way, and David can correct me, or Tom can correct me, but in a material way the answer is no, other than one thing: we did go from quarterly billing of certain customers to monthly billing, and for some customers who had that change, some of them did not like that change. That's part of our transformation, standardising and doing some of the things we do to take costs out of the business.
15
20

I would say that did create a temporary spike for those that were used to getting four times a year bill. But I think we worked through most of that in terms of the process, and I would say that's one where I saw the complaints come through, given the change that we made.
25

There are other sporadic things that happened, but we have had sporadic things that have happened in this business for 100 years. Do you agree?
30

DAVID MOFFATT: I agree absolutely.

IAN MARTIN: Tom Lamming gave us some data points for consumer migration, 6.3 million currently, 1 million in the last month, a target of 7 million by the end of the year. That leaves a tail of something like 2 or 3 million consumers to migrate. Relating that back to John Stanhope's cost out timetable, I imagine that those last 2 or 3 million are more complex customers with profiles, packages they are on, or whatever.
35
40

Are we able to get the rest of those off in the second half of the year? Will they drag into the following year, or will we have this situation where the IT contract costs that John talked about not being got out at such an early stage, will continue to drag on at a high level?
45

MR WINN: The story is the same between John Stanhope and John McInerney, Tom Lamming and myself, and David, is that we are on track. That stuff you talk about is the stuff coming up in the future releases. They are not more complex; in some cases they are more simple,
50

like our prepaid mobile platforms, as we move customers across, as we get into shortly after the first quarter of calendar year '09, moving towards the end of the fiscal year. Our cost takeout is aligned with the
5 reality of the transition and the movement of all of the customers off the legacy platform.

MR MOFFATT: We are working towards this and making sure we do that. There are three or four things that impact.
10 Some are complex, others are timing, getting the sequence of the migration to a bill cycle that allows us to migrate the customers, which is no more than what we have been doing.

15 In the unusual circumstances where we have sequenced the build of the product into the new capability and/or got a migration program that we intend to run in order to get there.

20 From our point of view it is about being disciplined, understanding what those buckets are, moving fast in the kind of way we have, and being focused about getting it done quickly. Because that presents us with the greatest sales opportunity and greatest cost
25 opportunity, but a lot of that is happening in year.

SAMEER CHOPRA: I am trying to get a sense of how the new IT systems give you a cost competitive advantage. When measuring SACs, there something like a cost
30 equivalent, a cost that you measure internally as well? And if so, how is that tracked, and how does that compare against competitors in Australia?

MR MOFFATT: There is a direct relationship between time
35 and cost. Obviously labour is one aspect of that. The time to fulfil a customer order in a mobile sense, 20 minutes to eight. So there is lots of mechanisms that we track every single day in terms of how that changes.

40 That gives us a choice. We can invest more in the customer experience and present more opportunity to them as the system will help our consultants to do, or we can manage our costs more aggressively. We have lots and lots of ways in which that comes out in terms of costs
45 out of the business.

MR WINN: I will give you a couple of examples. When you look at the size of the customer base and look at the number of calls handled each year, it is way out of
50 proportion. You don't talk to every customer every month. What that really reflects is customers who get caught in the trap of transfers between departments. When you have a single view of the customer, the way we have talked about it, you have the ability with the new

systems when you call in with a new customer, the person or agent you are talking to has all the information they need in front of them, so they don't have to transfer you. That takes costs out. That takes customer
5 irritation down because we are not handing people off. That is one part of it.

On the network side, because we have a single view, we have the ability now for Foxtel customers, your fixed,
10 your broadband, your mobile, to pull it all together so multiple truck rolls are gone. Scheduling conflicts, we can send the right technician with the right sets of materials on their trucks to the precise location, and we can do it all in one visit, which is a better
15 experience for the customer as we get them on the new system. That takes out multiple truck rolls, relieves the dispatch system, less billing errors.

MR TRUJILLO: Back to Mark's question earlier, it is all
20 about labour to revenue productivity. We are going to take it out in multiple ways around the whole delivery system that we have in the business. I am going to take one more question and I am told we have to go to lunch.

25 STEVE MYERS, MERRILL LYNCH: To follow up on Ian's question, is there a drop dead date on when you can announce that all of the systems being replaced by TR1 on the billing and the consumer relationship side are all shut down, when you can come to the market and say
30 that has been achieved?

I appreciate the glimpse you have given us into the developments we can expect on the OSS side. Can you
35 give us some indication for what investors should be looking for, particular milestones or benchmarks where you get a release or crystallisation of the value from that investment on the OSS side?

MR WINN: We said all along it is a five year
40 transformation. We are crossing over year three, so there are two years to go. The stake in the ground is obviously two years out. We always said IT stuff would be at the very end of the transformation. Why? When you have a system like Flexcab, a huge billing system
45 that bills all sorts of customers, we can't turn off any system and decommission it even though, as you saw in our numbers, we decommissioned a lot of them, until we have every customer, regardless of whether they are a consumer or a small business or enterprise, or what have
50 you, off those systems. And in some cases they are systems that serve no purpose any more as we have migrated to some of the tail questions. You have the new product constructs whose customers are still on obsolete products, or whatever, that will be migrated to

new product constructs.

As that comes across, we have to leave some of those in place simply because - think of it as an ecosystem where something moves through it. We can't just unplug it and pull it out or we'll have a gap and something will fall out on the floor, until we are ready to take all of that part of the ecosystem down. Most of that happens at the end of the transformation. We have been recovering data centre space etc we have been recovering as we go, but the big stuff comes later.

That's the key part of what you can expect there and we are still on track to do that. We don't have any surprises yet. We are three years in but IT is always an interesting journey.

MR TRUJILLO: We are going to have to cut it off. We are still going to be around. We will be at lunch if you want to grab somebody while you have a sandwich. Feel free to do that. At 1.15 we are going to start again. We will have to move quickly.

LUNCH BREAK

MR THODEY: For the next session, we've got a number of us are going to be speaking from the go to market side. Myself, Deena, David Moffatt, and Holly Kramer, and then also Justin and Kim and Bruce will be talking as well.

What we want to do is try and give you a bit of an insight into what you're seeing going on in the market, both from a perspective of what we've achieved, but also what we're seeing going forward. I have an important announcement to make today which we will be crossing through to the US to speak to John Chambers, so I'll come to that in a moment.

Let me first start by talking about the enterprise and government market. I just want to try and give you a sense of what's going on in that market. Obviously a lot of you had questions about what's the financial crisis having an impact in terms of the market, what we're seeing, and how we are travelling in the enterprise and government market.

Let me start by giving you an update on just what we committed to in 2005, and then how we're tracking. I'm delighted to say that the enterprise and government group continues to perform very, very strongly. We finished the year at 3.6 per cent growth.

And that probably understates the success that we've had. I'm going to talk about that because there's some very significant things happening in our market that are really playing into the strengths of Telstra. I mean,
5 even when that 3.6 per cent growth, if you normalise that, it was actually 4.2 per cent growth because the minute we sold off the superannuation business of KAZ, and we also sold off Sunrise, so it was actually a 4.2 per cent growth.

10 And we had some significant wins last year. Let me name a few of them: Tabcorp, these are total contract values. \$135 million; Victoria Department of Education, a three year contract rolling out - Sol announced yesterday in
15 terms of 10 megabytes to every school within Victoria, and that was up at \$80 million dollars. Department of Defence, \$117 million dollars. Medibank, \$72 million dollars; Spotless, and a number of Federal Government contracts.

20 So what's happening up there is that people are wanting to adopt this new technology, and they are, you know, coming to Telstra. But as I finished our presentation last year, I talked about the importance of carriage
25 growth. And I can't stress how important it is to get the fundamentals of this business around core carriage growth. And we finished the year at 5 per cent growth in core carriage. That is an outstanding result. That's across mobiles, data and voice, very, very strong
30 growth.

Also, in terms of extending contract lengths, because every time you have to sign a contract every year, it creates an enormous churn in terms of the business and
35 having to go through contract negotiations. We have extended that out to a little bit over two years, and close to three years in terms of average. Productivity improvement of 15 per cent.

40 So, across all these metrics we've set ourselves, we are performing very strongly and it is very exciting. It is critically important we continue to address all those key metrics we set ourselves in 2005.

45 So as you looked at our results of 3.6 per cent, you can see from going back now to 2003 how our revenue trajectory has changed. And that gives us the freedom to go and invest in new areas, and it is, I think, a reflection of how we perform in the market.
50

As revenue growth was increasing we also took cost out, so our contribution growth was 8 per cent. And we try to compare ourselves to what other telcos are doing around the world. Now it's very difficult because every
5 telco firstly segments the market differently. Some of them put mobiles in, and some of them don't. When you look at that, we were right up there at the top, and at 3.6 per cent growth.

10 When you look at a company like BT with their global services strategy, as Sol's already mentioned, going after revenue growth but a single digit EBITDA, that's not a strategy we want to embark on. We want to have services that are going to drive growth in our core
15 carriage, and be responsible in terms of driving out the right margins in our services business. So over all a very strong result.

Let me just take you through individually some of the
20 highlights of the performance last year. Firstly, for the first time in living memory, since competition came onto the market, we have positive churn in PSTN. That's just for us just a real blast, because it's such - the core of our business, and it was just a tremendous
25 result.

The mobile result was interesting because we finished the year at 26 per cent growth in our mobile revenues. But what underpinned that was this enormous growth in
30 wireless data: 74 per cent growth in wireless data. That is just a true reflection of the changing dynamics in our enterprise market, as customers are buying wireless broadband to change the way they run their business.

35 Some of the statistics there you see in wireless broadband, ARPU's 4 times that of a straight wireless voice service, and in terms of broadband wireless email, it's about 1.6 times just wireless voice service. So
40 very, very important part of our business.

And then, of course, in the data area where we're seeing this migration through to IP - and I'm going to be talking a little bit more about IP because it really is
45 very, very important for us going forward - we had tremendous growth at \$76 million, which is 65 per cent greater than Optus. Now that's because of our strong base, but that's a significant comparison in its own right. So the IP business is growing very, very
50 strongly. And what's great is our customers are voting

with their wallets, so that gives us great confidence going forward.

5 But underneath that data is some very, very important inflection points that I just want to spend a few moments reflecting on, because this is important when we look at the business and the future of the business. As you go through these inflection points, you're leaving your legacy behind and you're going into the new revenue
10 streams.

Our wireless data revenue was more than our wireless voice revenue. Let me say that again: wireless data was more than wireless data. Now that is just seeing an
15 enormous change in the behaviour of our customers, and is very significant. As I said 74 per cent growth in terms of wireless data.

And then very significantly for the first time, IP
20 revenues were greater in the fourth quarter than our legacy data, ATM, frame, DDN. Now what that means is we are now going through that inflection point of this tremendous growth potential we have within the IP base, and as our legacy products actually fall down. And if
25 we can hold some of that legacy data just a little bit longer, it gives us even new, better and exciting opportunities going forward.

So let me just spend some time on the IP network. I
30 think probably we talk about Next G, and the understanding of this IP core network is not as well understood by yourselves and also by the market in general. And this truly is one of the most advanced networks in the world. I've had the opportunity to go
35 and talk to many operators around the world, and especially in terms of the enterprise market, because as you'd understand, enterprise customers know more about our technology because they're bedding their business on the technology that we deploy. And they are very
40 discerning in terms of what technology we are using.

But let me take you through some of the statistics around the next IP network. Firstly it is seven times the coverage of any other operator in Australia, and
45 that's 15,000-odd points of presence, or nearly 16,000 compared to 2200, 2281.

Now remember when you're talking to a large corporate bank or you're talking to a government agency, this is
50 very important because they want a ubiquitous network right across Australia.

Now the speed and scale. And remember if you're in enterprise, your needs go up and down, and you don't want to have any impact on how you're transacting at the front-of-house. Two hundred and seventy times more scalable, and we see that every day. In fact, for those who were technically minded, we use the CRS-1s in the core of the network, which is a Cisco product, and use a product called the M320 on the edge.

Most of the other operators in Australia use the M320 in the core, so it just gives you a sense of the scale and capability. Now this is very important for enterprise customers. You know the integration of Next IP and Next G, so you get a seamless experience. So when you're coming in on a wireless data card, you're coming into your virtual private network.

Now remember, this is very important for an enterprise, because you're trying to deliver applications out into the desktop and into a mobile worker, and they get a seamless experience. So actually having that integration really translates into value for the customer. We have linked the Next IP network into our core through Reach and the MPLS core throughout Asia, and into New Zealand. So now we're talking about a trans-Tasman and an Asia IP core network.

Security critically important, critically important. We are the only ISO-certified network in Australia today. That took a lot of work to get there, because this is so important if you're handling financial transactions, sensitive data, be it Endure or in Centrelink, this is very, very important.

And then, of course, the managed services capability to be able to have an end to end capability, so you can see right through the network, managed layer and the products and services around it are very, very important. So this is why the Next IP network has received so much accolade from analysts around the world. And it is exciting. It makes it very easy to sell. It's not a hard sell, in fact it's a very easy sell as you go and talk to customers.

But it's important to realise too that this is just the beginning. Because just like in mobiles it is about ARPU. How do you get more revenue per end? So when we go out and sell an IP network, we also then start selling these value-added services on top. What we've got here is just a nice little staircase that shows the

potential, once you've actually got an IP core network out with the customer.

5 And the example we've used here is a customer with roughly 20 sites, about 800 seats; and you can see that we can go from about a \$350,000 per annum cost. You can drive that up to nearly 70 per cent more at around \$600,000. Now that's the sort of scale that we're talking to, if you can start to sell hosting, security,
10 managed services on top of what we call layer three.

So, when Greg was talking to you about that IP network, this is what it drives out to in terms of our customers, and it is very exciting, because this is what they want.
15 They want to be able to really pass the responsibility of the network through to an operator like ourselves and then allow them to get on and do their business.

Now look, what's very important - and Sol mentioned this
20 at the beginning of the day - this is a different world, and it may be hard for you to understand, but managing in what we call a narrow band world is very, very different to when you're working in these wide band environments. Remember the intelligence in the network
25 - I was trying to get some analogy this morning, but the amount of computer power you have in these networks is enormous.

It would scale probably to as much as all the corporate
30 data centres in Australia, because the intelligence that you've got in the core network and at the periphery, they're like computers. And so you're managing this ecosystem all the time, and you've got to be able to have a good view of it at any one time, be able to
35 manage it, and to drive out with a new generation of management tools. So this is very, very important. So you've got to deliver reliability to your customers. So this is the tough part of the IP world.

40 Now what else we're doing, working with Tom Lamming, is implementing a product called NSA, or OSS NSA, Network Systems Architecture, which is about allowing both ourselves to manage these networks in a better way at a lower cost, but also about giving our customers access
45 to their own virtual private network. So if you can imagine someone at, say, Westpac being able to look at exactly how their network is performing at any one time, be able to dynamically provision band width and buy band width on demand. This completely changes the business
50 model, because it gives the customer control of their network. And so you've got to have a very sophisticated

network to be able to do that. Also if there's a problem in the network, you get immediate alarming and you can make decisions about what you want to do, because this is real-time business, transacting every day, every moment.

So this is a very, very important part of our transformation, and it is exciting because we roll out this capability, already partially at NAB, doing a bit of work at Westpac as well. So this is what is part of this IP network, and it really is the foundation of our future.

But look, the other point is that we spend a lot of time on now is not just talking about technology. Technology is important, but as Steve Ballmer said, and Sol said, it's about how you drive productivity into your customer base; how you allow them to use tools differently; how to really use wireless technology, use IP networks, and they can get quantifiable benefits from it.

So we've spent a lot of time talking around Australia when we did the example of the - well, it was Telepresence, but it was that image, you're transporting that image, which was great. We had a Hugh Bradlow ported in from Melbourne to Sydney, and it was a great example of what the technology can do. But it is about productivity improvements, and so it's around office, mobile, meeting, collaboration and home.

But rather than me going on and talk about it, I thought we'd get three customers just to talk about some of their experiences in terms of how they're using this technology to change their business.

VIDEO SHOWN

They are three great examples of how customers are using our technology. One of the common threads through that has been a key partner of ours, which has been Cisco. I'm delighted to say that over the last year we've been working very closely with Cisco to enhance our partnership, and it's been around product go to market, and also in the operational area. So what we were announcing today is an enhanced partnership with Cisco where we're going to really build integrated products with the help of Cisco to improve productivity of our customers. So I'm delighted to welcome from San Jose, John Chambers, who's going to talk to us about the partnership.

JOHN CHAMBERS: David, Sol it's a pleasure to be with you. How are you doing?

5 SOL TRUJILLO: I'm doing well. Congratulations on your results announcements today.

JOHN CHAMBERS: I think revenues are really good, orders were a little bit soft, was what we would like to have seen.

10 SOL TRUJILLO: This is a guy who loves outperforming all of his competitors all the time. So I say congratulations because it has been a tough market. As I looked at your results today, they were obviously head
15 and shoulders above those that you compete with every day. Welcome to Australia.

JOHN CHAMBERS: It's a pleasure.

20 SOL TRUJILLO: John was volunteering to come here and till we looked at calendars, and basically he is busy announcing his results. But to show you the kind of commitment he has to us as a customer, obviously he has agreed to appear. And you know, for some reason we are
25 able to make it magically appear, in a hi def very close environment with John. So John, thank you for taking the time out of a busy day.

JOHN CHAMBERS: Sol, it's a pleasure. I was listening to
30 David report the results on your mobile networks, and your Next G networks, and Next IP. Perhaps we've given our two teams too low a goal for this next year on what we can do together?

35 SOL TRUJILLO: John, we are glad you've joined us here, because we're talking about a partnership, a way to go to market, to bring more value. And I know that you've heard from me a long time, about this one button, one click, you know, simplicity, where we can really
40 collaborate, and enable customers to do the kinds of communications capabilities or services that they like doing. And now bringing in this dimension of collaboration. And even when we think about longer term entertainment, obviously all of that is part of the
45 story that we've been talking about.

But today, David is emphasising, you know, this customer set that we have, you know, our enterprise customers, our larger customers, and all that's going on. And
50 we've had had great success, but we know that with this way that we can now talk about integrated network base

services, and bringing them to market in a new way, we're excited. So thanks for coming here, and you might want to share a little bit of your perspective here.

5 MR CHAMBERS: Sol, I think you and I have a same vision of how the network plays out. It is no longer about transport. It is about how you can get access to any data anywhere in the world, any content from any device over any combination of networks with guaranteed
10 response. A lot of people talk about things changing people's lives. I think what you are seeing today will be the next generation of productivity.

15 With the networks you are building out, you will be able to bring this capability to any business in Australia, connect to anywhere in the world that you want, and it gives the power by working together to do 'one word, one click', to bring up functionality which you and I both share a common passion for.

20 In fact, for people in the room, Sol has probably been the most direct out of any of the service providers in the world about making these capabilities easy to use so you can truly get access to productivity. Our engineers
25 love to engineer too many functions in, which is a nice way of saying it is too complex for the users, and then people don't take advantage of it.

30 I like the way our teams are working together and I think that what you have seen today is the first step over what we can do together over the next several years to really change Australians' lives.

35 Again, congratulations on the infrastructure you have built that allows you to capitalize on those capabilities.

40 MR THODEY: Thanks John. The partnership, as you know, will be around the management network services area, unified comms and security. I thought it might be worthwhile today, would you like to reflect a little on how you are using unified comms within Cisco, to drive out productivity and also to address some of those things around greenhouse emissions and CO2 emissions, et
45 cetera, to really address some of the big issues there? I think it could be interesting to the investors.

50 MR CHAMBERS: It is interesting to watch. We think we can drive a decade of productivity in our company at 10 per cent growth year over year, every year for the next decade. A lot of companies made very aggressive claims on productivity and haven't followed up. If you check with key economists in Australia or here in the US, Dr Greenspan for example, or in Europe, every time we

have made claims on productivity increases of countries, they have happened as soon as we have said, or even sooner very often.

5 At Cisco I will do 100 meetings a quarter by the use of
Telepresence. I am with you all this evening. Tomorrow
I will be in China, in Szechuan Province, where we are
rebuilding the schools and hospitals as a result of
10 their terrible earthquake. I will actually see two of
the young children I met in Ying Choo which was a city
where 15,000 people lived, and 5,000 people
unfortunately died as a result of the earthquake. We
are talking about how we create jobs and create
capability there.

15 Later in the day, Sol, I will be meeting with one of the
top banks in Australia through our networks together, in
terms of opportunities, and earlier in the day I will be
in New York and Colorado, meeting with investors through
20 Telepresence. That's my normal day. I travel around
the world now to different locations by using this
technology, and it changes business models as well as
productivity.

25 David, we save 30 per cent per year now off our rates on
travel per employee. Our emissions are down by 10 per
cent per year on emissions within it.

MR THODEY: Don't give Sol too many ideas.

30 MR CHAMBERS: The input to visiting you all would
probably have taken 16 metric tonnes of CO2 emissions
just for my share of a seat to come down to Australia.
If I had flown my own plane, the number would probably
35 have been closer to 50 million tonnes.

It changes business models. It is the only area that I
have ever seen CEOs look at. Jeff Immelt GE, a Jamie
Diamond at JP Morgan Chase, a Lee Scarlet at Walmart,
40 saying this will not only save me huge amounts on
travel, I will completely redo my business structure and
take advantage of it. They get it. It is CEO idiot
proof. I am the CEO. I have to be able to operate it
with one word one, click type capability.

45 MR THODEY: John, what is so exciting about our
partnership is that by building product together and
really integrating it with the power of the network and
the power of your capability both in the network and at
50 the customer premise level, also a great operating
environment, we are going to bring new product to market
far quicker than we could before.

Things like Webex we are working on now, and also the

Telepresence B2B, so we can actually work between different businesses on this capability, which we will. We are going to be number one in bringing it to the market in Australia.

5 This is what is exciting about the partnership: Time to market, leadership and serving our joint customers together. Because there is this inflexion point in the market that is so exciting.

10 MR CHAMBERS: David, just staying with the comments you just made, to drive productivity at 10 per cent a year as a company, which I think is very doable, or as a country to drive it at 3 to 5 per cent, which is what
15 goals will be probably set in the US, in terms of opportunities in front of us, you have to use the technologies we talked about in the way that brings results at the bottom line.

20 The collaboration groups, work spaces if you will, together, called Webex, that we are jointly developing, inside of Cisco have increased 25 fold in eight months. Video, YouTube capability, not just post YouTube
25 capability but our own internal utilisation of that, is up 10-fold in eight months. And so you see ramp up of these type of capabilities in ways that we might not have imagined.

Our Telepresence meetings at Cisco with 280 sites around
30 the world, are up to almost 3,000 meetings a week that we do. These technologies come together with a common architecture that allows businesses to move more quickly.

35 Sol, you already know this, but for the people in the room, the complexity when you introduce new technology like Telepresence, like Webex capability, like bringing this capability together in the home in the next 18 months, it is hard to get up and running. And when we
40 come together we can make it much easier to bring up new emerging technologies and make them quality as though they have been around for a very long time, and much easier to use. And that's really what our two companies can do together.

45 MR THODEY: It really is very exciting, John, and so with the go to market side with the local team, and the links back to the US, it is an exciting partnership. We are delighted to be working with you, and feel
50 privileged and look forward to working the market together. Thanks, John, for your time.

Just before you go, this is the Telepresence 1000 unit, which is a wonderful unit. We have brought it in, and

you can see the quality. It is outstanding, John. Wonderful technology, but we have to sell more of them, I hear.

5 MR CHAMBERS: David, I will give you the numbers. This quarter our Telepresence units were up 500 per cent year over year. The volume is going well. It works well. I want to thank you Sol, David, Greg and the rest of the team.

10 MR TRUJILLO: We really do appreciate you joining us and again we will have a lot more conversation and hopefully down the road we will be able to talk about all the things we are already delivering, and those kinds of
15 volumes that you have just referenced.

MR CHAMBERS: Sol, I want to congratulate you. I know what the service providers around the world are returning. Your profitability is amazing versus your
20 peers, and how you are learning to monetise the loads on your network in the way that your peers are still thinking about. So it is an honour to be your partner, and we will push each other to move even faster.

25 MR THODEY: That was a key part of our partnership going forward. And that is very significant for us because it really takes us to a new level in working with Cisco. As I said, it is about getting product to market faster and actually having the network and CPE truly
30 integrated.

Let me summarise, in the interests of time. Firstly strong results from an enterprise and government market. One thing I didn't say is that at the moment we have \$2
35 billion of opportunity around large network outsourcing deal. So there is no lack of opportunity in the market. We are very excited about that.

We do see Next IP next year as critically important
40 going forward. We are all driving productivity improvements, customer service and, of course, the partnership with Cisco.

Thank you very much. I am going to pass to Deena Shiff,
45 who is going to talk about Telstra's business in the SME market. Deena.

MS SHIFF: I would like you to turn your attention now to small medium enterprises, regular businesses in
50 Australia. I think Steve Ballmer called it lunch box customers. That's new for me, but there is plenty of money in lunch boxes and there's plenty of opportunity, believe me.

In fact, I am pleased to report that TB is outpacing the market in all product categories. While our competitors' fixed revenues are declining by around 10 per cent, we are holding ours steady. In mobiles we are
5 growing at more than twice the rate of our competitors, and in fixed broadband and IP we are growing at more than three times the rate of our competitors.

We did this without buying market share through
10 aggressive and unsustainable pricing. We grew or maintained ARPU in all our major products categories. The average amount each of our customers spent with us in financial year '08 was 7.6 per cent higher than in the previous financial year, a consequence of our
15 deepening relationship with our customers.

Equally important, we have been careful to contain the growth of costs associated with this rapidly expanding business. Subscriber acquisition costs were reduced
20 from 17.6 per cent to 15.1 per cent of mobile revenue.

This past year our focus on the needs of small business has been rewarded with record growth of 8.6 per cent year on year. We have stuck to the strategy I talked to
25 you about last year, first to make what we sell to the customers relevant to their business needs. Second, to ensure that where we sell we respond to the customer's business needs; and third, to better service our customers. So quite a simple formula, not always easy
30 to execute around. But in a single year we have increased the proportion of revenue generated by our strategic products, 3G mobiles, wireless and fixed broadband IP and CPE from one fifth to more than a third of our total revenue.

35 These are the coloured slices of the pie, and as you can see they are rapidly displacing the grey legacy offerings. This is significant not just because these products are generating most of our growth - and have a
40 look at our growth rates down the right-hand side of the chart - but also because they're the strategic platform for a new generation of services that will redefine how our customers use communications and software, the type of software that Steve Ballmer talked about, to support
45 their business.

In our market we are seeing very rapid growth in data access revenue, as small medium enterprises intensify their use of the internet, email and other data-hungry
50 applications to improve productivity and expand their business reach.

Our customers are increasing their data consumption, in particular by wireless devices. Mobile broadband

revenue grew much more rapidly than fixed broadband revenue. By nature of their size, small business in Australia really conducts business on the move. That's the nature of businesses in Australia.

5

Every time a customer adds a data pack to a phone they are effectively adding another 30 per cent of ARPU to that average customer's consumption. And that's looking at relatively modest consumption characteristics at this point.

10

If you think about the fact that our base is still at a relatively early stage of adoption, clearly this part of the market as it changes the number of data users and as it intensifies their usage of these device to conduct business transactions, will generate growth into the future.

15

How have we outperformed our competitors in realising this potential? First, the products themselves have been designed for businesses, yeah, for the lunch box customer, that's what they're designed for, for the particular needs of those customers.

20

Secondly, we package these products with relevant business applications based on the needs of particular segments and verticals. So take Telstra business broadband as an example. This is our business grade broadband service. It has features such as hosted PC backup, and a range of add-on services such as business security and business conferencing, and also the next generation of services like T-suite which I will tell you about shortly.

25

30

This sets us apart from our competitors' offerings, and at the risk of straining Steve Ballmer's metaphor, the great thing about market based management is we are not just selling lunch boxes, but we get to know what our customers want to eat for lunch, what they want to put inside it. We will be able to define what their applications requirements are in putting these propositions together.

35

40

TBB has been especially successful in the mid-market segments. Our sales consultants have been trained to listen carefully to how each customer uses broadband. Armed with this knowledge they're able to recommend the right type of service and applications for that customer's business.

45

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The results: TBB SIOs grew 205 per cent over the year. It generates an ARPU premium of about 60 per cent over Bigpond ADSL, and Telstra Business group market share in internet and data by 3.3 percentage points.

We are also seeing strong growth of 62 per cent in IP access revenues. Almost a third of these customers combine Next IP and Next G so they have the same experience whether they are on a fixed or a wireless broadband network, and whatever their choice of device. Again we have tailored value proposition to specific segments.

For example, larger multi-site customers are seeing the value of Telstra video collaboration as a cost-effective means of connecting employees located at different sites. A typical example of next dimension working IP plus Next G, would be one of our customers servicing one of David's customers, say at a mine operation, their construction services, they have to be at lots of sites. They also want what these enterprise customers want. They have the same sorts of needs but scaled to their size of their business.

We are rapidly increasing penetration of IP into our base with scope for improvements. Fundamentally business customers want their queries resolved with as little fuss as possible. They want moving and expanding their business to run smoothly, and they want to be protected from business interruption, especially in these uncertain times. So service is, and will continue to be, really important.

Historically 90 per cent of Telstra Business customer's were managed by the Consumer Fault Centre, that didn't necessarily respond to the fact that it was a business customer. A dedicated Telstra business faults centre went operational in Townsville in July 2008, with 80 consultants trained to understand our specific service requirements. All Telstra business customer faults are now routed to this centre.

An early warning system gives us visibility of customer orders, and the service level that customers are actually receiving. Interim services as a standard offer provided to ensure business continuity.

This service has now been extended to Telstra Business customers with Bigpond products as a result of the integration of Bigpond operations into the relevant customer facing business units. This has connected the majority of our broadband customers to a better business service experience.

Other initiatives we have put in place include a courtesy calling program for our customers who recently activated a wireless application. We contact 100 per cent of them within 14 days to make sure they know how

to use it, and it is easy to use. In addition, premium support is provided by Telstra Plus, a wholly owned subsidiary of Telstra, which arranges or delivers itself on-site support, which is proving popular.

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We continue to improve our sales channels by focusing on their capability, capacity and coverage. The customers that a sales representative manages, that's in our direct sales force, are better matched now by segment, industry and location. Our sales reps receive ongoing training in selling business solutions. We are already seeing the results with sales per sales rep up 29 per cent over the past year.

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In our business contact centres we have been improving our IVR and outbound calling lists, to ensure that the right call gets to the right people. Not only does this improve the customer experience, it also reduces wasted time dealing with misdirected calls. We have also been training our sales consultants in the contact centres to be able to deal with multiple product types and improved cross-sell. Again, the early results are promising with 30 per cent growth in incremental sales per consultant over the last nine months alone, and improvements in sales of strategic products.

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In our indirect channels, Telstra has unrivalled coverage with over 5,000 points of presence across Australia with our branded stores, licensed shops, et cetera.

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Within this footprint, we've established sales capabilities. Moreover, in the branded retail channel we've now created 17 dedicated business centres. Each of these business centres can do sales visits at the customer's premises, as well as demonstrate all Telstra business products and applications in-store. We've broken Australia into 60 geographic zones in which we have at least one total solutions partner per zone. But we're now 12 months into an aggressive program to improve capability in our dealer channel in all of these zones. As at September, we had 772 staff and 114 dealers certified as Telstra Business accredited. And they had to do a lot of training to get that accreditation.

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We will groom out of this base more candidates for business centres in other geographic locations, because clearly our growth is coming from all over Australia.

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In fact, I'm pleased to report I personally sold the first T-suite with Microsoft to a remote health worker in the Northern Territory on Saturday. So with the help

of Geoff Booth at TCW, there's a lot of IT-hungry people all around that map.

5 In addition - and thank you Greg Winn and the guys for populating that map with Next G, including Arnhem Land because we're selling there at the moment as well, in anticipation of the cable coming on.

10 In addition to established Telstra channels, we now have 750 ICT partners in place, with Next IP and complex data products showing significant uplift in this new channel, in the ICT channel.

15 As small business confidence in doing their business on-line grows, so too we have to expand and we are expanding our online presence. In September we relaunched our Telstra Business portal. It now attracts on average 36,000 visits per week, 50 per cent more than our nearest competitor. It has tools to help customers
20 select and request the right solutions for their needs. Customers can personalise the online Telstra Business portal to their own business requirements.

25 Our mobile portal is being updated with the new user interface. It will feature personalisation tools, converged online and mobile services, such as unified messaging, and access to a range of mobile business applications. The next stage is to integrate our mobile and our online portal.

30 Most important, the portal will be the gateway to a new paradigm in software delivery, T-Suite. T-Suite enables small people in Australia to buy software on demand without any upfront or fixed costs. T-Suite is now
35 being offered to a selected group of customers with full market launch in early 2009.

40 Commencing with our announcement this week of our exclusive distribution of Microsoft online services, software and applications titles will follow as we continue to explore the driving needs of our business customers. So let's have a quick look at T-Suite.

VIDEO SHOWN

45 So let me conclude with the report card. How do we measure up against the score card I've presented in the last two years? With 8.6 per cent growth in financial year '08 we have clearly succeeded in reversing revenue
50 decline. In relation to legacy products, we again this year halved the rate of PSTN revenue decline, from minus

4.3 per cent in '06/07 to minus 1.5 per cent, surpassing our promise to slow PSTN decline by 40 per cent.

10 In fact, we grew our SIO base in financial year '08 while holding ARPU erosion. We're progressing well in building the platform for growth. Two years ago we set a target to grow 3G as a proportion of mobile subscribers to more than 60 per cent in '08/09. We've doubled our 3G penetration over the last 12 months, and achieved our goal well ahead of schedule.

15 At the end of '07/08 our 3G subscribers as a percentage of TB Business mobile subscribers was 64 per cent. We also promised to grow broadband in IP penetration to more than 50 per cent in '08/09. Our customer penetration of broadband and IP was 49 per cent at the end of last year.

20 Finally, rebalancing revenue from old to new, as measured by the proportion of non-fixed voice revenues. Non-fixed voice revenues are currently 52 per cent of our total revenue. Given our continued strong performance in PSTN and ISDN, this rebalance could only be achieved by driving double digit growth in non-fixed products.

30 Looking forward, we are clearly going to build upon these platforms to offer business applications based on our customers' needs. But focusing on our fundamentals, market-based management, differentiated business distribution, business service proposition and experience, we will be even more relevant to our customers as they face these challenging economic times ahead. Thank you, and I welcome my colleague, David Moffatt.

40 DAVID MOFFATT: In the next few minutes I'm going to take you through a little bit about performance. I'm going to talk a little bit about where to. Some numbers from the customer experience that we've been delivering, and talk a little bit about sustainability, revenues and margins, and of course, the value of integration. And when Deena talked about her distribution strategy, full support from our retail team on that. So it's not duplicating effort here, it's working together in a seamless way. And of course we've even got some time for a little bit of fun in the middle of that.

50 Let me start by giving you some more detail about how this business is performing. You know, by any measure the Telstra Consumer is a business with great momentum,

and it's a business that's outperforming our competitors pretty much from our point of view on every metric that matters.

5 Top line revenue growth, revenue market share across all products, mobile services revenue growth, 2X that of our major competitor, blended ARPU up nearly 7 per cent, whilst our major competitor declined. Internet revenue growth of almost 40 per cent, Pay TV three times the growth rate of 2007. And of course we've made a lot of the commentary around PSTN, and our of world-leading performance where we've achieved both revenue and customer number growth, which has been an extraordinary performance.

15 And all of this we've achieved while we've actually grown margins, and in the year that we've just had, I think the best example of that is subscriber acquisition costs. Now this is an important, important measure which really does need to be focused on, because we've delivered a 24 per cent reduction in consumer and subscriber acquisition and retention costs, at a time when our major competitor increased their cost to acquire by 9 per cent, and they lost share.

25 We do understand how to balance the investment in growth with the cost to acquire. Telstra today won't be making any excuses about the impact of the iPhone on margins. It's a valuable contributor to a comprehensive range of products and services that we sell. But the lesson with iPhone, as our major competitor has proven and as many international operators have proven, it's pretty easy to give stuff away and to discount. It's actually much harder to position this stuff for value. But clearly, doing so is better for customers and for shareholders.

We do acknowledge that we've got a changed set of market circumstances. Unemployment is rising, consumer spending is falling, GDP growth will slow, but these factors actually don't affect customers' core needs. And this is where Telstra, with market-based management particularly, is so very, very different to our competitors. It's about our business model, supported by our financial strength and investment choices, our distribution strategies, and of course performance, operating performance of the team. Because to succeed we've actually had to pursue and develop a differentiated business model, and a different level of operating intensity and operating management.

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But combined, these strengths have helped us to counter the massive price strategies of our competitors. And you've all seen that, you've talked about that, and some of have bet on it actually as being an outcome. And we
5 have been able to counter this.

But it is a more difficult external environment. There's no doubt about that. So we've already taken proactive action. Sol talked about the fact that we
10 bought stuff forward. Marketing simplification 35 per cent of non-customer facing head count, already addressed in our business plan. Fully addressing bad and avoidable volumes. Greg talked about that. We're well and truly on that path to take those costs and
15 other benefits out. Multi-channel, reduced cost, serving customers in different ways, in an integrated way, BigPond integration, alignment, all products, all services, same call centre, same single agent type stuff, and of course the aggressive management of things
20 like SARCS.

On investor day 2005, we presented a number of kind of medium term goals, and those predictions were based on how we thought we could transform the business. We
25 actually had to go and execute it, but it was all about delivering profitable revenue growth in a sustainable way. As you can see from this chart, we've exceeded our own expectations in migrating customers to higher value platforms.

30 Broadband mix is 85 per cent, and it's indicative of customers' need for quality and for speed. The take-up of Next G mobile service has been very strong over the past two years, with now more than double the 3G
35 subscribers of our nearest competitor. And we've shown our customers the value of non-voice services, such as web browsing, picture messaging, mobile TV, downloading content, with the penetration of these things up by 70 per cent year on year. And mobile Foxtel and BigPond TV
40 on mobile are growing at 120 per cent a year, to one of the earlier questions.

Let me just give you a little bit of a perspective on just how we're going about this and our strategy.
45 Bottom line is we have a strategy, and it leverages all of the investments that Greg and Tom, and obviously that Sol originally thought up, and have come together, and you can see it on this chart. It's about leveraging IT systems, it's about leveraging a new way of thinking
50 about retail. And of course, this is all underpinned by this concept of market-based management, which is a deep

understanding of the customer and what they value, and researching that, and updating it and integrating it into our CRM systems.

5 The execution of this strategy is clearly delivering results. I've talked in the past about strike rates, and we started off at 8 per cent, and we thought that's good, and then we went to 16 per cent. Last year we got to 20 per cent, and all of this is about productivity,
10 and we're even getting some campaigns now with the much better integration of our operating systems, running at around 40 per cent, which is really, you know, very, very high levels of performance.

15 But this is also about the shareholder benefits of integration. And here's the point about how this model comes together to the wheel on the right-hand side of this chart. For every 100 PSTN customers, one back from a competitor ULL service, 70 per cent bring their
20 broadband service with them. That is a much higher broadband market share than our average market share, and 20 per cent of them take a Foxtel service. That's how this comes together.

25 As I said a little earlier today, we're executing this comprehensive transformation. It's not an IT transformation in isolation, but clearly it's enabled by the IT team, but it really is about this concept of customer lifetime value. At every touch point, it
30 doesn't matter whether it's an online inquiry, a bill, a service call, a T-life visit or a call interaction, this is what we call a moment of truth.

Our research, borrowing from other industries, confirms
35 that when a provider actually delights a customer during the initial engagement - and we have not been great at that in the past, but we can see a path to doing it every single time in the future - the lifetime value goes up by up to four times than a customer with a poor
40 experience. And then when you think about our multi-product and usage stimulation activities that we're doing, SMS and MMS to customers, all the things that we're doing to highlight the benefits of using our products and services, the delighted customer can
45 actually uplift their potential value by a further three times. So clearly, rewarding relationships breadth and depth and exceeding the customer's expectations actually drives revenue and retention. And the proof point about that: PSTN 25 per cent reduction in PSTN churn for each
50 of the last two years, to just above 4 per cent, clearly world leading.

Post Pay. We have seen the attack on price in the marketplace, and enormous attack on price. But despite all of that price competition, we were also able to hold
5 our churn levels to 2006 levels, while growing ARPU and margin. Market-based management continues to guide us in a real laser-like way in the way in which we're targeting customer needs. But of course it doesn't become real until we make it real in the channel every
10 day. And you've heard about where we're up to in the transformation of our integrated systems.

But it does give us solutions and the ability to position those that are very unique in the market sense.
15 By arming our staff with the latest capabilities, we can enhance the services we provide clearly to our customers from this single screen that we talk about. But we can also enable simple tailored solutions, and those of you who've seen the benefit of the demonstration of the
20 screen, can see how we can load up those propensities.

So we move from single product to far more integration through the marketing transformation piece, to a fully integrated view and beyond. So we are also now looking
25 at pricing. Everyone will have complained to us in some form or another about complicated pricing. It makes IT harder, makes the customer sell harder at front-of-house. Good news, we intend to address that, and we have got some clear road maps to simplify pricing into
30 the future.

This will allow us to really go after what I call the real prize here, which is in redefining our market opportunity, from telecoms - very narrow definition - to
35 communications, information, media and entertainment, facilitated and enabled by every part of our changed journey and every aspect of our investment strategy.

Our innovative and segmented customers offerings are supported by the strength, reach and presence of our brands. And a couple of things that we've done, the Telstra mobile mentor program, provides customers with relevant, efficient and simple tutorials that help to maximise the value that they derive from our services.
40 So have been running some trials. And since we have measured those last two and a half thousand customer one-on-one sessions, mentor sessions, we've seen services adoption just being driven as a result of this, and average satisfaction ratings are running around 95
45 per cent. So for a mentored customer, they purchase 66 per cent more browsing packs, and their data usage is
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one and a half times that of a customer that hasn't been mentored.

5 And Telstra customers are responding with quotes like "I don't actually mind paying for a quality product" or, "I now have coverage just about everywhere I am". Or this quote, "With Telstra I have a service that I can actually use". But it doesn't stop there. We're aiming to keep the innovations coming, and I'm really looking forward to Holly's presentation where she will share with you this MyConnect thing, which is just fantastic and ensures customers remain up-to-date, secure, and connected whilst on the move.

15 Many of you will recall the launch of our mobile codes on this day last year. Mobile codes provide Telstra and Next G customers with a new technique and ability to access web content and services in a really simple way. You just have to point the camera at the code, and that satisfies the customer's need for immediate and real-time interaction. It's great for advertisers too. It's simple, it's instantly measurable, very low cost to deploy, and as I said, we would have a million mobile code capable devices, I can confirm today that we now have a million mobile code capable devices in the marketplace.

Nearly six million Australians have actually been introduced to this product via our web campaigns, and because of our advertising partners, folks like Toyota and Sony, they're generating a whole lot further interest. In Sony's case, they're actually prompting the new James Bond film, *A Quantum of Solace*.

35 The business equation for us is about carriage revenue for Telstra, and it's about advertising revenue for Sensis Media Smart. Why don't we have a look for a little bit of fun at mobile codes in action?

40 VIDEO PRESENTATION

MR MOFFATT: Let's talk about distribution and some of the new information on the performance of our T-Life stores. This is a pretty stunning performance. T-Life has dramatically changed the game in retail in our industry, and our customers told us they wanted live experience. Sol talked about it from the very beginning. They wanted to be connected. They wanted to experience it, and the full range of our products and services. They asked for personalised services, so we delivered MyPlace via our highly trained staff, each one of which goes through 18 weeks of specialist training.

Almost half the customers that visit a T-Life store nowadays receive a personal demonstration of their new services. Not high enough, but you can see where this
5 is going. That's contributing to T-Life mobile conversion rates being 2X, that is a traditional store. But T-Life is not simply about mobiles, it is also about driving multi-product sales, product sales across categories.

10 We are seeing a 21 per cent improvement in the rate of growth of non-mobility sales in our T-Life stores. T-Life is also generating higher ARPU, and accessory revenues are double that of a traditional store. We
15 have changed the game in retail. We have measured over 4,000 individual MyPlace consultations since November 2007; 94 per cent of customers are completely satisfied with the service. Obviously we would like to make that higher.

20 I can confirm today that we expect to open up to, subject to sites and licensee engagement and the rest of it, up to 100 stores by this time next year in total.

25 Let me focus on something that has been overlooked, and that's people. When I say overlooked, many of the presentations talk about people, but I want to be very specific for a few minutes. The development of our people is a key component of our business
30 transformation. A strong employee value proposition, combined with pay for performance systems, do enable us to improve retention and obviously to drive a performance culture throughout the business.

35 Our high performance culture is supported through what we call life cycle induction programs and incentive programs that are aligned to the delivery of our strategy. You also have to invest in learning and development frameworks and technical leadership. Greg
40 has talked about this a lot, but it builds capability at all levels, and we have done it on the consumer side and in our distribution. And it allows for the performance bar to be aligned to stretch targets, something we have set among our management team. We have also implemented
45 a far more robust process of selection and that further strengthens organisational capability.

Even in uncertain times we are going to continue to invest in our people because it is very clear that an
50 engaged work force, my number one measure for success and as a predictor of success, an engaged work force drives customer satisfaction.

Let me wrap by looking to 2010. Revenue will be driven

by a greater depth and breadth of services, with existing customers stimulating usage of unique content and value-added services, driving customer lifetime value through an improved customer experience.

- 5 Introducing new segmented value propositions like MyConnect, integrated home and high def TV services, are also going to help that revenue side of the equation.

- 10 Our margin growth will be driven by intense variable cost management, lower cost to serve and retain, facilitated by systems, better training and a really intense focus on call routing, IVR, all those important things, and that just results in less people to support a single front-of-house person serving a customer, where
15 we will invest and continue to invest.

- Here we have already taken action, as I said at the beginning. Non-customer facing workforce has been reduced by over 35 per cent, that's 500 people, while
20 improving our operating processes and reducing the bad and avoidable volumes that Greg referred to. It is this kind of focus that enables results that underpin the momentum that we have within the business, a momentum that has us outgrowing our major competitor in mobile
25 services two to one, growing PSTN revenue and share, growing broadband share and ARPU, and all of this while expanding margins.

- We believe we have a superior business model. We know
30 we have a focused and disciplined operating team and a clear set of advantages, giving us the confidence to create top line and margin growth even in challenging times.

- 35 Thanks very much for listening, and I would now like to introduce my colleague, Holly Kramer.

- MS KRAMER: Thank you, David, and good afternoon everyone. I'd like you to sit back and just try to
40 picture this scenario. You have just landed in Sydney and you are heading to a meeting, say, I don't know, an investment analyst briefing or something like that. You arrive and you realise you have left your mobile phone in the taxi, and that is not good.

- 45 First, you are expecting a really important call to come through. Second, your PA is meant to be calling you to tell you where you are staying tonight and to confirm your travel flight home tomorrow, and not to mention all
50 your contacts and your diary are all stored in your phone.

Now, this could be seriously bad news, and for any of you who have experienced this, it is seriously bad news.

Luckily you have your laptop with you, and in your laptop naturally is your 21 Mb Next G data card. So, what do you do? You go online and you are able to retrieve your mobile voice mails from your email Inbox.

5 You did get the call that came through. It is very important, but you can't call back because you don't have your phone. What can you do? You can send an email reply to that mobile voice mail. You have heard it come through on your laptop, and you reply.

10 In fact, your PA did ring and has a question about where you want to stay, and you can't call back because you don't have your phone, but you can send an SMS from that email inbox to tell her you have lost your phone. Then,

15 when the briefing is over later in the day, you head to a T-Life shop and pick up a brand new hand set. And because all of that information has been stored in our network, you can instantly resync all of your address contacts, all your information right back onto the phone

20 instantaneously. So crisis averted.

Speaking about missing calls, has anyone ever played phone tag? The average employee spends 37 minutes a week, or 30 hours a year, trying to contact people who

25 aren't available. What if you knew exactly who was available and how they wanted you to contact them? You could set up a fixed and a mobile conference call to everyone on an email cc with the click of one button. This is obviously all for real.

30 The first service is called MyConnect and that's what we are launching here today, for consumer and small business markets. And the second is the world's first collaboration with Microsoft that will be available in

35 the first half of next year. This is the integration that you heard Steve Ballmer talking about, the link of OCS on desktop with our IP telephony service. That, as I said, is going to be available in the marketplace early next year.

40 You have heard Sol say time and time again, we compete in the market on the basis of differentiation. We are all about finding new solutions, creating the unique experience I was just talking about for our customers

45 and adding real value. That's how my colleagues here today have been able to deliver growth in revenue share, and ARPU over the past few years, and how they will be able to continue to do so.

50 For those of you who were here last year, and the year before for that matter, we talked about the strategy for creating differentiation, and how differentiation drives up share and ARPU. The results over the last two years have shown this strategy is working. Our

differentiation at the network level is undisputed. You have heard plenty about that today. Our brand and content assets have continued to develop, and you will hear about that shortly.

5

Now we are on a relentless drive to differentiate through real integration at the product level. Greg briefly mentioned earlier today that over the past year we have invested in service delivery infrastructure that will let us truly deliver integrated products to the market using common re-useable enablers that are absolutely necessary for delivering a one-click-one-touch experience.

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For example, identity. It's not a one-click-one-touch experience if you have to log in under a different name depending on the access type that you are with. Those are the sort of enablers you have to build into the network to get the experience that we are after.

20

I am not going to spend this session talking about the underlying infrastructure. I want to make it clear that this is a strategic investment that we are making, that will support all of our products into the future, across all assets and across all segments.

25

What I do want to talk about is the exciting new services. You heard a fair bit about them today. There are services that we will be launching in the market that will truly transform how our customers communicate and create a platform for continued revenue growth.

30

What is this unified communications we have heard about? And more importantly, why do we think the time is now? It is essentially the ability to integrate many types of communication across networks and devices, and then to merge them into business and web [unclear] applications. For business it means productivity, and for consumers it means being able to stay in touch like you never have before.

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I think the interesting question is why now? Undoubtedly you have heard of UC. It has been around for a while, but has not really taken hold in the market. Why not? I would suggest there are three reasons. The first is not because customers don't want it. We do research, and time and again, you talk about the needs and functionality and they want it, they really do. But it is because we have never had the reach and speed in our networks before. We have never had the penetration of multiple services with our customers and capable devices in the market, and we have never had the technical capability, the technical infrastructure, to deliver a genuinely good user

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experience.

Today we think these prerequisites are met. The emergence of global standards and the investments from the global players like Microsoft and Cisco and others, mean we can deliver these services today and meet the market's expectations for how they are going to work.

I suppose what's interesting to you is what's the business model and how do we make money from unified comms? First, it is by protecting and stimulating our core revenue streams, of voice, video calling and messaging. For example, we expect that our consumer unified comms offering will stimulate mobile messaging by up to 20 per cent per user. In addition, true unified comms experience gives customers real and tangible reasons to bring all of their services to Telstra and to keep them with us.

For years, carriers have talked about rewarding their customers for loyalty by giving them discounts. Now they get a unique experience by bringing all of their services to Telstra, and keeping them with Telstra. The thing about unified comms is that it introduces new revenue streams for us as well. In Consumer, you will see we are launching two new services as part of this overall UC offering, and we are creating new opportunities for digital advertising. Again, that is our friend, Mr Akhurst, from Media Smart.

In business, new collaboration tools emerge that leverage video. Video drives band width, a lot of band width, and band width means revenue growth for us.

Just take a quick look at the unified comms strategy for business. You heard today from Steve Ballmer and John Chambers how important it is for telcos and software providers to partner together to deliver real UC for our business customers. We have partnered with the two leading companies in the industry to develop hosted and managed unified comms that cater to the needs of all of our business customers.

We think this is an unbeatable line-up that gives our customers real choice, whether their journey to UC comes from the desktop or from within the network, and whether the telephony is on premise and hosted.

As you can see, with the two partners, we really think that we can meet all the needs without duplication in our offerings.

A recent Frost & Sullivan report, which I believe just came out, shows that Australian businesses see Telstra

as the number one player best placed to deliver unified comms. That is very different from a few years ago. They see us as the number one player, not telcos, Telstra. In fact, we are seen as three times more
5 likely than the next best option. I would have done a slide but this has just come out. If you just look at that page, that long line which I'm sure you can all see, that's Telstra.

10 What that is saying is that the market is saying, and looking to us, as the really genuine provider of unified comms.

Why does the market want it, and what's in it for our
15 business customers? You have heard David say - and it is quite clear it is productivity, it is lower costs. Companies like Cisco and Microsoft are great examples of new ways of working, of collaborating anywhere, any time. You've heard John talk about it. We have been
20 working very closely with these two companies over the last year. This is how they work. They live this, and work it. At Telstra we are now using conferences and web meeting tools as a matter of course. We believe our customers are set to follow.

25 Shifting now to the consumer market, I am pleased to announce that today we are launching our new consumer unified messaging service MyConnect. With Telstra, and only with Telstra, our customers will be able to use our
30 Bigpond web mail service to manage all their message types in the one inbox, basically the scenario that I was describing for you earlier to access this inbox on a Next G mobile. They are never out of touch.

35 You have heard David talk about it, and I will demonstrate it in a minute. What are the consumer customers telling us what they want, and what do they get out of it? They get convenience, flexibility and security, and you will see how. It is a whole new way
40 to communicate. For us it means increased messaging revenue, it means increased subscription revenue for new services like mobile email and mobile sync.

But rather than trying to explain it, I am going to run
45 a short video that demonstrates the power of MyConnect.

VIDEO PRESENTATION

This is the integrated inbox. It is going to bring in
50 all these types. I will just talk to it then.

Here it is MyConnect, all your messaging coming in to one inbox. What it shows is a unified messaging experience across the laptop and mobile, and three

services in one. Starting with the inbox, what you can bring in is emails, voice mails, and a whole range of messaging types into the mailbox, and you can then send SMS, MMS and emails out. It doesn't matter what kind of messaging it is that comes in, you are able to switch types and send another one out.

The other thing you can do is you can bring up to five email accounts into the one inbox. If you have G Mail or Hot Mail or Yahoo! you can integrate them into your Bigpond inbox.

You can also link this to your mobile so your mobile MMS and voice mail messages will also come into the same inbox as I was describing before in the scenario. Now, this is demonstrating, say you have a voice mail saying something about coming to a party on Saturday night. Again, instead of replying you can send that exact mail out as an email, attach a map, and send it out to groups of friends. Again with groups, you click contacts, you just click and drag your contacts right into the inbox, and off you go.

The other thing that the service has is a calendaring and a contact function. The calendar function obviously is very sophisticated calendar function with multiple types of views. The really fantastic thing about the calendar function is that it sends alerts so you can set it up to send you either email or SMS reminders of any important events in your calendar, also special anniversaries and birthdays that are part of your contact list.

The second service is My Email, this is the push email service to the mobile device. If you have the inbox through Bigpond, for \$7 a month, this will be the push, the same way you get Blackberry or your Microsoft messages in a corporate environment, consumers can now get push email right into the native client of the device.

It's a very simple process where you simply press, put in your mailbox address, your password, and you're up and running with basically three clicks. What happens is again from the native client you get your email messages.

Now the third product from \$3 a month subscription is MySync. MySync basically means all of your contacts in your mobile device, and your contacts within the online experience are automatically synchronised all the time. So the minute you update a contact to either your online inbox or your phone, it automatically synchronises to

the other device in a neat little sync fashion. But basically you then – because you're doing email from your handset, you now have your email contacts in your handset, and you can place calls in SMS. In MMS, you
5 also have your phone numbers that were previously on your handset in your online inbox.

Is it truly is a very seamless experience. One of the things in there with the anniversary, it's pretty
10 powerful stuff because I would say an SMS that reminds you of you're anniversary that is coming up is probably well worth at least the price of an SMS, if not the subscription services on top of that.

15 So where to from here? Well in Consumer we're going to be integrating these unified communication services into the PSTN. That's the '08-09 development challenge for us. Everything that you've seen up there is available to all of our customers from today. Soon again your
20 PSTN rings at home, any voice mail left at home will get integrated as well, and you can get it from anywhere that you are. We will also be seamlessly linking this environment to content and social networking sites, a true integration of media in comms.

25 Now, in the business world our focus is going to be on extending more and more functionality into the mobile environment, taking more and more applications and sending seamlessly into the mobile environment, and also
30 moving further into the world of productivity applications. So stay tuned, we will have plenty more to talk about next year, as we keep on this relentless pursuit and differentiation.

35 Thanks for your time and patience today. We do have demos, and they'll be done far more expertly than I was able to outside today. I hope you will take the time to check it out. Now I would like to hand it over to my colleague, Justin Milne, to talk about the media side of
40 media comms.

JUSTIN MILNE: Thanks, Holly, great job under pressure. I'm pleased to say I've got no demos, no multimedia, even though I'm the media guy. Now you've heard a fair
45 bit today about differentiation and about how Telstra is winning in the competitive market because of the extra value that we try to offer consumers.

One of our key aspects of differentiation is content,
50 and for the next hour or perhaps a bit less you will hear from Bruce Akhurst and Kim Williams and myself

about the contribution about online mobile and TV content to Telstra. All three of us will be referring to this word 'media comms', our media comms strategy, and that means more, much more than simply pushing
5 content down pipes. It means creating value for consumers by doing things that no-one else can do.

For a start it means understanding our consumers better thanks to the insights of market-based management. It
10 means assembling entertaining consumer content, useful search and directory information, as well as applications that boost business productivity. And it means having the fastest and of course the most ubiquitous broadband networks. And it also means having
15 the best customer service in the industry.

In other words, Telstra's media comms strategy means providing any content or application across any broadband network to any device. It means making it
20 integrated and personalised so that it creates extra value for our customers.

So first let me expand on the role played by content.

25 In September we created Telstra's newest operating unit, called Telstra Media, and the new unit gives us for the first time a consolidated and coherent view of all of Telstra's content businesses both in Australia and overseas. While many of these businesses operate
30 independently, under Bruce and Kim, the new structure means that we can monitor their performances as a whole, encourage hopefully even greater cross-pollination between them, and drive a truly coordinated integrated strategy across them all for our customers.

35 Our mission at Telstra Media is pretty simple really. It's to grow audience and revenues both here and overseas. Now given that we've got this valuable house of brands and superior networks and much better customer
40 knowledge, how can we make money from it? I reckon there are about five ways at least. First we try to link buyers and sellers together and then take a clip of the transactions that they complete. BigPond Shopping, for instance, sells more plasma TVs in a week than most
45 high street retailers.

Secondly, we sell data, so generally speaking the more our customers use our networks, the more they pay for access.

50

Now we sell online and mobile advertising. In fact, Telstra and all of our subsidiaries, represent one of the largest online and mobile advertising businesses in Australia. Each month nearly half of all Australia
5 Internet users visit sites that carry our advertising.

We also sell subscriptions, for example, BigPond's horse racing pack, which for the first time allowed
10 Australians to watch this week's Melbourne Cup on their Next G handset, and also on PCs.

Finally we make money by what we call pull-through. We pull through customers who switch to Telstra for their services because they value content, and they're
15 willing to buy our services in order to get to that content. These customers watch the Indian test cricket on their phone today, for example. They can only see that on a Next G mobile, so when they think about where they're going to get their next phone from, if they like
20 cricket, they choose us.

There are many reasons why this model, the Media Comms model, has succeeded for Telstra in Australia. Our brand is strong and it's trusted. So people who might
25 otherwise worry about buying things online can buy from Telstra knowing that it's safe and knowing that we will deliver the goods. Telstra has a very strong balance sheet, which means that we can keep growing even in times like this when the market's tough.

30 We know our customers, meaning that we can reach exactly the right customer with exactly the right offer at the right time in the right place. We have got billing relationships with more than nine million fixed and nine
35 million mobile customers, and as a consequence they trust us with their money each month. And that makes it relatively easy and relatively inexpensive to bill those customers for any of the mobile or online content that they purchase from us.

40 We've also got a very strong presence in the retail marketplace, with over 300 Telstra branded retail stores across Australia. Our customers know that Telstra offers better after sales support than they can get
45 anywhere else.

So allow me to show you how some of our media comms strategy is already delivering success here in
50 Australia. Take the revenue that Telstra derives from online and mobile media, which is up 72 per cent in the year ending August 2008. It's up on a small base, I

admit, but mobile and our broadband business revenues were small once too. Take the number of 3G customers who used their handsets to download content. That number has more than doubled in the same period, more
5 than doubled.

Or take the revenue that we derive from the same customers, and that revenue's up 90 per cent in the year, partly boosted by for example the Beijing
10 Olympics, which were a huge success for us, and they were available live and exclusive only on Telstra Next G mobile phones.

These results make Telstra a leader amongst other global
15 telcos. They come to us to ask us how we did it. Our success as a media comms company is also of course measured by audience size. Telstra's media network makes us the fourth largest online publisher in Australia, heading north. Measured another way, fully
20 one in three adult Australians visit us every month. Whereas most publishers have difficulty in monetising their visitors, many visitors come to Telstra sites specifically for a transactional purpose, so they bring their purse or their wallet with them.

25 Better still, some online publishers are experiencing growth at the expense of their audience on their traditional media. Telstra, on the other hand, is growing even faster without cannibalising its
30 traditional business. In other words, for us media is all incremental but the really good news is that it even adds more value to our traditional business.

I just told you that online and mobile revenue was up 72
35 per cent in the year to August. Let me just pull that apart a bit, and talk about online and mobile for a second.

Revenue from BigPond content consumed online, on PCs,
40 was up 44 per cent in the first quarter of fiscal '09 compared to the prior period, and revenue from BigPond content consumed on Next G mobile phones was up a huge 92 per cent over the same period, and that was made possibly by our Next G network, and of course, by the
45 success of content such as our Foxtel by mobile offering, which provides 33 channels of Foxtel leveraging the great Foxtel brand onto Next G handsets.

Finally we have derived from online and mobile
50 advertising sales revenue that was up 34 per cent in the first quarter of fiscal 2009, compared to the prior

period. In other words, Telstra's new media advertising sales are outgrowing traditional advertising quite significantly, and more importantly, we're outgrowing the rest of the new media advertising market, so we're taking market share in this important new area. The reason is that we offer much greater accountability to mobile and online advertisers.

Market-based management means that we just know our customers better. Our mobile content means we have an established audience, our Next G network means we can reach them anywhere they are. Our billing relationship means that we can collect their money reliably. And our brand means we're trusted. All of which means that advertisers no longer have to shout their message everywhere. Suddenly they can use Telstra to hit precisely the right customer at precisely the right time, and even more importantly, in exactly the right place.

One of the reasons that we created Telstra Media was to take our media comms experience and see if we could export it overseas. Now, we think that the Chinese market has enormous potential for us, not only because of its size but because China's really sitting on top what we call three unexploded growth bombs. They're set to really transform that market.

First of all, China's rapid industrialisation and liberalisation is driving phenomenal GDP growth. China has long been reporting double digit growth and reported 10.1 per cent in the June quarter, despite the impact of the current credit crunch.

Second, the penetration of online and mobile devices is absolutely set to boom. Right now only about one in three Chinese consumers use any kind of a mobile device, but as the middle class grows, the rate of mobile penetration will triple.

Thirdly, the popularity of 3G mobile phones is about to explode. This is more important than it seems, because the primary way that Chinese people experience the Internet today is on mobile handsets, not their PC. And that means that the launch of 3G in China next January will trigger an absolute step change in that market and the way that they consume media.

So the opportunity is pretty obvious, but you might ask how is Telstra positioned in this market. As you'll hear from Bruce, we've already got majority stakes in

some of China's very best online businesses, where we're enjoying excellent relationships, excellent top and bottom line growth, and learning a lot at the same time. I can tell you that we're going to invest in concrete opportunities to expand our businesses in China.

These are businesses in China that offer massive scale efficiencies. First of all, you're serving a population about 65 times bigger than Australia, and secondly you're sitting on these three growth bombs in GDP penetration and 2G to 3G substitution. Some of these content businesses already in China are operating at 100 times the scale of similar businesses in Australia. And suddenly Telstra has more leverage if we do this, with vendors, with content generators, with advertisers, with capital markets, and other industry giants in Europe and North America.

If you're an advertiser, say, who is keen on reaching a Chinese audience, it would be a very natural and attractive thing to deal with Telstra to get there. Who else but Telstra after all has an established media comms business? We have the Chinese management and language skills, the strong balance sheet, credibility in the Chinese market, a huge database of user behaviour, a friendly time zone, and experience in content aggregation and distribution. And that's all just for starters.

Now you've heard today about how we've used content to differentiate on value, how the new Telstra Media unit gives us a coherent view on content for the first time, and how we're making money from media, and how we're positioned to grow into our markets overseas. So now I'd like to introduce my long-time friend Kim Williams, to tell you more about Foxtel and his part in the puzzle. Thank you.

KIM WILLIAMS: Thanks Justin, and thanks to Sol for including Foxtel as part of Telstra's impressive presentation of its business performance product and services today.

Foxtel continues to transform our product and our results. Over the last seven years we've doubled our subscriber numbers, reduced our churn and moved from a sustained series of losses to making an EBITDA of over \$350 million. During the last year we've continued to innovate while managing costs ever more rigorously. In June we launched the Foxtel HD-plus high definition service with a new personal video recorder, the IQ2.

In the last ten months we've added nine new channels to the platform, and we deployed a state of the art subscriber management system, and rolled out extensive allied initiatives to ensure that we continue to build reliable leading customer service.

Our investment continues to drive subscriber growth in these uncertain economic times with our direct business in fiscal 2007/08 delivering over 8 per cent. This gives us real confidence that subscription television, as has been demonstrated overseas, remains attractive during an economic downturn, because it represents a good value solution when people spend more time at home.

Our current marketing campaign provides strong evidence for this. Built on a body of careful research, it speaks in a relevant way to Australians. It has been delivering good sales outcomes for each of the last three weeks. The last two Mondays have, for example, been in our top ten of all time. In a little over a week's time we will launch an even stronger campaign. Again, it is again one built on thorough research, aimed to ensure that we have the right message and the right product approach to connect consumers and meet their expectations.

Foxtel intends to continue to listen to consumers and balance that delicate cord between push from us and pull from them, so that we can continue to make the right targeted investments for growth.

Foxtel has transformed its product over the last few years, observing that process of close attention to consumers' views. As you know, we moved from analogue to digital in world record time. We reinvented the proposition of choice, of channels, of content for Australians, and in doing so, we reinvented how, when and where you can watch them. We've added interactivity, a world leading electronic program guide, a great personal video recorder, the Foxtel IQ, and one of the best mobile television services anywhere in the world in Telstra Mobile Foxtel.

We now offer the choice of over 150 digital channels including an initial five great high definition channels. Foxtel is literally available on land, sea and on the air, over cable, satellite, mobiles and very soon on demand via broadband.

All trends in entertainment are towards providing consumers with what they want, when they want it, and over the platform of their choice, through devices that are simply and intuitive to use.

5

Foxtel's product innovation caters directly to this drive to personalisation. Our partnership with Telstra is central to that evolution. Over the period since digital launch, Foxtel has strengthened its financial position.

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These outcomes derive from the continued investment in product and support services which have delivered one of the world's most sophisticated evolutionary digital platforms whilst maintaining a close eye to efficiency with strong cost and operational disciplines.

15

Foxtel subscriber households have risen from around one million four years ago to a number comfortably in excess of 1.5 million today. In the same period our revenues have grown from around \$950 million in '03-04 to about 1.7 billion in '07-08. Our EBITDA has moved from sustained negative numbers up until 2003-04 to over \$350 million in '07-08.

25

Our profit has also increased from negative numbers to \$157 million in '07-08. Foxtel's financial outlook will continue to build on that history over the last few years with affordable growth, consistent profitability improvements, matched with solid reliable cash flows. Foxtel's balance sheet remains sensibly leveraged with our debt facilities secured through the next four years on margins considerably more attractive than would be achievable today.

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We are also well hedged on foreign exchange exposures.

That financial performance is underwritten by metrics that show that people enjoy the product and that the consumption story has been consistently strong. Compared with five years ago, today our customers watch more Foxtel, buy more tiers and additional services, and are less inclined to churn. The figures tell the story.

40

Foxtel has world leading ARPU. It has grown significantly from our pre-digital era to our ARPU today, which is underpinned by the strong take-up of our top package with 45 per cent of the customer base taking platinum, as well as strong take-up of value added services like Foxtel Box Office, Multi-room and Foxtel IQ.

45

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Our churn has performed satisfactorily at 13.4 per cent in the last fiscal, and I'm pleased to add that it is

stable in the current year.

Our take-up of the IQ has been one of the fastest in the world, now reaching 30 per cent of the customer base after just three and a half years. Over 60 per cent of new subscribers now take an IQ from inception, compared with only 38 per cent over the last financial year. Last week we had a selling rate of the IQ of 65 per cent.

Subscription television share of viewing in STV homes is at 59.4 per cent over the calendar year to date, and subscription television has achieved the first position in overall share of all TV viewing, that is subscription television homes and non-subscription television homes which now stands at 22.6 per cent.

Our growth and improving financial performance derives from the key factors central to subscription television success, an unrelenting commitment to content, product innovation and customer service, built from the unique direct relationship we enjoy with subscribers. We have, after all, personal conversations with over half a million of them a month.

In June 2008, Foxtel launched Foxtel HD Plus, with an initial five high definition channels, as well as Foxtel Box Office, HD on demand movies. It is a best in market product and since launch in late June has sold over 70,000 subscriptions. Our high definition offer will more than double in 2009. Foxtel is HD in Australia, and HD is the destiny for all future television.

The take-up rate in the US is already faster than for colour TV and the change is every bit as dramatic.

This expanded selection of HD content is powered by the IQ2 and our intuitive electronic programming guide which makes navigation in an extended channel universe exceptionally simple.

The virtues of IQs are known to you all, the ability to pause and rewind live television, record two programs at the same time and watch a third live program, and to store and time shift all viewing. All these features have proven to be extremely powerful consumer propositions.

Other developments continue to fire with customers. These include our truly exceptional Telstra mobile Foxtel product which now carries 33 channels.

Last year we enhanced this service with a new mobile electronic program guide which allows you to use your

mobile phone to set your IQ at home to record the shows you want to watch.

5 The Foxtel web EPG continues to guide customers through search functionality and also enables remote booking to the IQ. And Foxtel live-to-air is now available on over 45 Virgin Blue jets.

10 In '07-08 we also deployed a new 21st century billing and customer management system on time and on budget. It provides the facility to get new products to market faster and to drive business efficiencies through simplified processes. This new system is integral to offering better customer service.

15 There are three immediate strands in our improvement program: first creating a centre of customer excellence at our Melbourne customer centre; second, empowering customers to manage their accounts via the web; and
20 finally, offshoring simple technical calls to an experienced provider.

However, the best choice in programmed or on-demand content is at the heart of Foxtel's reason for being, and of the digital platform. It is what makes us
25 different and puts us well ahead of our competitors in terrestrial television. The new, very limited number of multi-channels they propose or talk about delivering in 2009 can never match Foxtel as the overwhelming leader
30 in digital multi-channel TV in its truest sense.

Not only do we have the best guide, search, interactivity and mobility, but only Foxtel delivers the thrill of the widest choice in live sports from 14
35 sports channels. Only Foxtel delivers all the emotion and exhilaration of great movies, TV drama and entertainment with Foxtel Box Office, Foxtel HD Box Office on Demand, 10 movie channels and over 30 general entertainment channels. Only Foxtel offers the
40 celebration of our world in 11 fine documentary channels. Only Foxtel provides the best range of seven children's services and six music television and 32 audio channels.

45 And let's not forget the most diverse comprehensive news, weather and current affairs available in Australia through eight separate channels, as was demonstrated so very well in the US election coverage yesterday.

50 Over this year we will light up well over 1.6 million digital homes for around six million Australians, adding to their range of daily choices in an incomparable fashion.

To ensure we remain competitive, last Saturday we launched three new channels, CBeebies, which the UK's most popular children's television channel, the superb BBC Knowledge and a new general entertainment channel Triple 1 Hits.

But that's only the beginning. In 2009 we will enhance the offer and its appeal with even more diversity and choice in services, content and packaging. All the new additions have been carefully researched and planned to respond to real expressions of consumer taste and preference.

As I said at the outset, we are confident, notwithstanding all the various economic and competitive challenges we commonly face, that Foxtel will continue to achieve the steady household growth and profitability which follows from careful focused innovation and investment that really delivers good value propositions for consumers.

The sales figures seen in our recent campaign performance validate our view that Foxtel offers Australians an exceptional value in home entertainment solution which meets their needs at this unusual time. Foxtel makes home a happy family place.

I will be followed by Bruce Akhurst, the chief executive of Sensis and the chairman of Foxtel, and a very dear colleague of mine. But I am lucky enough to be a media guy and we all know that a picture tells the story much better than anything else. Let me share our road map with you; let me, as they say, entertain you.

VIDEO PRESENTATION

MR AKHURST: Thank you, Kim, and good afternoon everyone. Good to be here with you. I would like to share three points with you. First, we have reached world's best for revenue growth, and we will maintain strong growth despite economic uncertainty. Secondly, our investments in customer value have driven growing usage, advertiser return on investment and customer satisfaction.

Finally, we are actually bringing Telstra's media comms vision to life. We are integrating across Sensis, across Telstra, and now across the world to create new horizons of value. As you know, Sensis is in the local search business. It's Telstra's advertising business. It's our ability to bring buyers and sellers together at the point of purchase that underpins a fantastic value proposition.

Listen to this: Every week there are 70 million uses of our print, on-line, voice, mobile and satellite navigation network. In the Yellow network alone 11 million Australians use our products every month, 150 million times. This is an extremely powerful network. But, most importantly, over 90 per cent of buyers using our directories go on to contact a business. So 90 per cent of the people who pick up the directories go on and actually contact the business. And 70 per cent of them make a purchase.

With our products, users are not just reading the news, they are not watching *Dancing with the Stars* on TV, they are not listening to music on the radio where advertising actually interrupts what they are doing. They are not doing that. Users of our products are choosing to view our advertisements. They have the wallet in one hand and the phone in the other. That's what makes Sensis unique: real buyers, real sales, advertising with Sensis brings customers through the door, and puts money in the bank.

We provide the life blood to businesses across Australia, customers, not just brand development and recall. And that's why we continue to grow in tough economic times. To go without us is a bit like disconnecting your electricity or your gas. You will end up out of business.

That is also why we have a really huge impact on the economy. Our back of the envelope calculations suggest that the Yellow directory alone is responsible for something like four or five per cent of Australia's total GDP. This value proposition makes good sense to the almost 600,000 advertisers each year, and the cost makes good sense to them as well. A full page ad in the Sydney Yellow directory costs about the same as a full page ad in a Sydney daily newspaper. Of course the Sydney Yellow directory lasts for a year, while the Sydney paper only lasts for a day.

This extraordinary value and customer support is the reason why Sensis is such a strong financial performer. In financial year '08 Sensis' total revenue grew by 8 percent and a 51.4 per cent EBITDA margin, with 7.2 per cent in the directories business alone. We can proudly say we lead the industry for revenue growth. We are the only major global directories business in the world to exceed 7 per cent revenue growth. We are going to maintain that record.

While analysts are predicting negative to low growth in the media sector, we are maintaining our guidance of mid single digit revenue and EBITDA growth. We are

confident of that because the Yellow metro canvas is already in, and I am pleased to say we have performed even better than last year.

5 Over the last year we have built on our value proposition by investing in our customers, and the results have been spectacular. They need to know about these things. We have been growing usage, we've been growing advertiser return on investment and customer
10 satisfaction. With respect to usage, usage is core to our advertiser value proposition. More buyers using our services means more sales for our advertisers.

We invested in print direction recirculation. We
15 launched the new Yellow and the Car directory, and we plan to deliver over 750,000 books to new movers in financial year 2009. We invested in 1234 voice content, and we grew 1234 voice call numbers by 24 per cent, 24 per cent year on year. Our revenue was up 17 per cent,
20 while the rest of the world is in decline.

We have worked with Telstra to make our mobile services free to browse. As a result mobile usage has doubled since February. And we will be launching a new Trading
25 Post mobile site later this year. What that means is that the Trading Post mobile will take our new online auction capabilities in a mobile, so you can bid and buy on the fly.

30 We're also integrating mobile print and online to create new one-click ways for buyers and sellers to do business. Send to mobile, which links Yellow Online and Whereis.com with your mobile, is already being used about 20 thousand times a month. We are now offering
35 Telstra mobile codes, as David mentioned, to print advertisers. So Foxtel, I am pleased to say, has placed the first Telstra mobile code on the cover of the Sydney directory. Just photograph the code and you open up a mobile special offer, an application capability on your
40 mobile.

We have invested in online as well with great results. We've upgraded our major sites to make them easier to use and more information-rich. As a result user
45 satisfaction has grown by 6 per cent for White Pages Online and 5 per cent for Yellow Online. We launched online auctions in Trading Post Online, and while it's early days, we are seeing very strong growth in unique visitors, listings, bids and transaction sales.

50 We opened up Yellow Online so our advertisers can be found in search engines. That's already delivering a

million more potential customers to our advertisers each month, a million. And we have made Yellow advertisers prominent in Whereis.com, NineMSN's MyLocal, and now with Google maps. As we announced on Monday, Sensis has
5 entered a long-term partnership with Google to explore cutting edge advertising opportunities for Australia SMEs. As a result Yellow advertisers will be prominent in the rapidly growing Google map site.

10 So our proposition is that wherever your customers are looking, whenever they're looking, whether they be in print, online, in mobiles, in 1234 voice, in sat nav, or now is search engines, they will find you. They will find you through the one-stop-shop Yellow network. If
15 you advertise in Yellow Pages, for no extra charge we now bring you even more value by helping Google users find you. This is clearly a great outcome, another win for our business and for our customers. You advertise once and we get you out there where the buyers are,
20 across multiple channels and multiple brands.

So look, effectively all the old arguments about print and online, search and directories, become redundant. Yellow gets you everywhere. Let me show you what I
25 mean.

VIDEO PRESENTATION

I told you it was powerful. As you can see a simple ad
30 with Yellow Pages can give you access to millions of potential buyers and countless ways to engage them. Let me now explain with some data. About 7 million Australians use the main Yellow directory every month, and over 4 million use Yellow local directories each
35 month. So print is still a rock solid foundation of local search. But our Yellow network strategy helps advertisers reach out in digital media as well. 1.5 million sat nav users in Whereis powered satellite navigation, 1.4 million voice users through 1234 and
40 CallConnect, 3.7 million users in Yellow Online and Whereis.com. Millions of these searches are coming from search engines like Google each month. And when Google maps with Yellow content comes on stream next year, there'll be up to 2.7 million monthly users potentially
45 from Google maps as well. The net impact of this Yellow network strategy is growing value for our advertisers. The national reach of Yellow advertising, the national reach, is growing by 20 per cent per year.

50 Now we need to bring this value home to our advertisers, so they understand the value. So our second investment

has been in sales effectiveness and our advertiser return on investment program. We have reinvigorated the way we sell Yellow value story, and we've backed it with extensive sales training and metered ads. We're now
5 metering over 5,000 print ads and can tell you exactly how many calls these ads generated. Like the nine Sydney auto spares dealers who are generating almost 3,000 calls a month between them. And we know where they're coming at and at what time of day.

10 We've coached our people in the principles of information-rich advertising and lifted our customer facing time by 30 per cent. This gave our Yellow sales and design staff the tools and time to help advertisers
15 create more effective ads. We focused on selling the value, selling the value, not the deal. In just one sales cycle we've eliminated discounts, but despite that, customer perceptions of value grew by 7 percentage points for Yellow print or 12 percentage points for
20 Yellow Online.

And we established field marketing teams throughout Australia to improve our support for Yellow users, advertisers, and the communities that they work in. The
25 results of these investments in usage and advertiser ROI are on the board. Print directory revenue grew by 5.4 per cent compared to only 1.6 per cent the year before. And while that was happening, new media hit \$400 million and 20 per cent of our total revenue for the first time.

30 In everything we're doing, Sensis is bringing Telstra's media comms vision to life. Growing premium call revenue through 1234, mobile codes, send a mobile, free to browse, which all leverage Telstra's leading mobile
35 network. The metered ad program I talked about which is underpinned by Telstra's infrastructure.

But this is just the beginning. Let me tell you a little bit more about Sensis Media Smart. Over the past
40 five years Sensis Media Smart has become one of Australia's leading digital display advertising companies. Media Smart addresses over 60 per cent of Australia's online audience, 60 per cent, covering over 70 sites, and it has an ability to serve up to four
45 billion ads per month. This is a business that's building digital display advertising growth in online, in mobiles, in voice, and even in games. In the last year Media Smart display advertising revenue grew over 40 per cent, which is twice as fast as the market.

50

Our ability to monetise Telstra assets has been a stand-out. BigPond on line advertising grew by 86 per cent, as Justin mentioned, while usage of Media Smart sites, which include Telstra managed sites like BigPond, AFL and NRL, grew from 7.3 million to 8.5 million users in just one year. Now we're taking a lead in mobile advertising. We've signed three of Australia top four media agencies and have already implemented campaigns for many of Australia's leading advertisers. Many of these campaigns have delivered conversion to action rates of 20 to 40 per cent, which is more than five times higher than online advertising. So much higher conversion off the mobile device than from online.

We're leveraging our ties with Telstra to deliver sophisticated user segmentation, and behavioural targeting to our customers as well. That means our advertisers will be able to personalise their campaigns with targeted ads and content. For example, a travel company can configure their campaign to automatically offer Gold Coast holidays to young adults, and Margaret River stays to professional families.

So as you can see our investments have delivered more than strong growth. They've also enabled truly world class capabilities. There's very few companies in the world that have built the skills we have in directories, in search, in classifieds, and in display advertising. Combine that with our capabilities in sales, multi-channel advertising, in syndication across all of these platforms and brands I've been talking about, with transactions and targeting, and you have a business that's uniquely placed to drive long-term growth.

Now we're transferring these capabilities into the Chinese market, and as Justin confirmed, the Chinese online market is an absolute powerhouse of growth. Our Chinese businesses are now positioned as number one in real estate, number one in auto, and number two in digital devices. These three sectors account for over 50 per cent of the entire Chinese online advertising market, and our position in them is driving exceptional growth.

So for unaudited US dollar revenues grew by 67 per cent in financial year 2008, and our new entries in auto and digital devices are integrating well and performing above targets. We have built an online audience of almost 100 million middleclass Chinese. This audience will keep growing because it's been driven by an urban explosion that will see about 350 million more Chinese

people living in Chinese cities by 2025. It's been forecast that the Chinese property and auto markets will both grow by 50 per cent to 2012. The number of Chinese citizens with digital devices will grow from 49 per cent today, to 86 per cent, or 1.2 billion by 2015.

This growth will be catapulted by the launch of 3G in the next year, and on top of this the Chinese online advertising market is forecast to grow by 47 per CAGR to 2012.

So we have three pillars of growth in prime sectors of the world's largest online market. We have a three-pronged strategy to drive sustainable diversified growth.

First, we will continue to explore further M&A opportunities, to take leading positions in key markets, opportunities that must meet our stringent business model requirements of profitable and sustainable growth, high margins and strong cash flow production. Second, we will drive organic growth through vertical and market expansions. Examples amongst many include SouFun geographic expansion, which has now reached a 100-city milestone with more to come and a further phase of growth from opening up opportunities such as home and auto finance and insurance and growing our retailer network, including online sales in the digital device market.

And third, the third prong will be that we add the Telstra Sensis advantage to these businesses. As I suggested, we have already begun transferring our world class media comms capabilities. What do I mean? Well, we're instituting sales management and excellence programs to improve sales performance. We're leveraging our mobiles expertise to position our operation for the explosion of 3G that will occur in the 580 million user Chinese mobile market next year. We're exploring targeted paper performance display advertising business models. We actually have a trial going today. This will extend the potential audience for our display advertising from 8 million today to almost 100 million, 100 million, and that will make Sensis one of the largest digital display ad networks in the world. We're supporting this by leveraging our market-based management and behavioural targeting capabilities to build what we believe will be one of the world's largest user and customer segment resources.

Look, this is a high performing world-class leading business with a great future. As you can see, a unique media comms capabilities underpin growth in just about every area of our business. Across Sensis, across
5 Telstra and now across the world. We're going to continue building this future growth story by investing in print in the accessibility, simplicity, quality and accountability of print for the millions of Australia who rely on it today.

10 We will continue leveraging new media to create entirely new local search experiences that bring buyers and sellers together in new exciting ways.

15 We are extending our business into new horizons of growth, like targeted display, mobile advertising, transactions, and China. Most importantly, we are multiplying the value we can offer Telstra users and investors by bringing media comms to life. We are doing
20 all of this today with incredible success, and we are going to keep doing it together. Thank you.

MR TRUJILLO: We are now on the last leg here, and this is about more Q and A, and this is up to you in terms of
25 questions for our go to market retail team. If all of you that just presented can come on up. While they are coming up, let's go ahead and start the questions, if there are any.

30 SAMEER CHOPRA, DEUTSCHE BANK: My question is for Bruce. Bruce, the CAPEX at Sensis has gone up from 100 million, I think it is tracking at 250 million right now. What are we going to see from Sensis from the investments that have been made in the last two years?

35 MR AKHURST: That's not the right figure. The CAPEX is well under 200 million and the CAPEX will be reducing further into the next financial year. What you are going to see from Sensis is continued growth, great
40 return on investment, expanding profit margins, and a whole range of new products.

SAMEER CHOPRA: Products such as?

45 MR AKHURST: You have seen some of them. We are improving our online site, we are improving our print directories all the time, we are improving our mobile capabilities, we are expanding Media Smart, there is a whole range of things we are doing.

50 MARK MC DONNELL, BBY: I'm interested in the relative shares across the different segments and the way that translates to utilisation of products. If I look at

David Thodey's business, for example, I see a lot of customers who really give you all of their business. When I look at Deena's, I see that you are gaining market share. It is not quite as clear in a product sense where that's occurring.

When I look at Consumer, I see a much more jumbled picture, where you face a lot of competition in key product areas, particularly internet and mobile. When I think about Holly's presentation, what I am seeing through unified comms is potentially a mechanism for Telstra gaining a bigger share of market by bringing more services into a unified platform and using that as a cross-sell opportunity.

Where is this really going, if each of you wouldn't mind briefly addressing that point about service utilisation per customer in your relevant business? What are the key trends and where do you see it going, given the sorts of product initiatives that you have announced?

MR TRUJILLO: Deena, did you want to start? We will go to Deena, then David, and then David.

MS SHIFF: In the SME market, we have gained share in all the product categories. The good news though is that in some of the categories we were below the market share that Telstra in general had. For example, in broadband, it's no secret that when we took over the business my erstwhile wholesale customers got there first. And so we really need to climb back and regain market share, which we have done. And that's a key focus. So, the answer is across every category we are gaining share quite rapidly.

In terms of where we focus our efforts in relation to solutions consistent with my presentation, the good news in terms of opportunity is that we are still quite under-penetrated in data take-up, so it is very low single digits in terms of data attach rates, and even the adoption of smart phones is really at the beginning of an adoption curve.

In addition to growing market share, the more we can drive data attach throughout that entire basis of small business becomes more habituated to using smart phones as a business tool, and the more we can give them to put on the smart phones, then we drive the ARPUs up because we intensify the usage as well as drive the SIO penetration of those smart devices.

MR THODEY: It's a good question, Mark. Whole of business is critical in our market. I don't have the numbers off the top of my head but it is the majority of

our customers would probably take a whole of business contract. We try to do more of that at the moment. We try to package up so it is a total set of solutions moving through the unified comms and the convergence we
5 have. And we would also would have a good market share. We can talk later on that.

MR TRUJILLO: Before David Moffatt talks about the consumer side, the key thing to think in mind is that as
10 we have evolved our strategy, clearly, as Deena pointed out, we have underperformed on a small medium enterprise. Period, end of story. Under market share on virtually every category. She and her team have really pounded that back.

15 In the case of the larger customers, and really both of them, we are now adding value. So it is not just about "selling more", it is about adding more value which then enables a customer to think about productivity, to think
20 about the value trade off, to think about whole of business choices, as opposed to piece part choices, because we are making the services seamless across all the platforms. And that's part of the value-add that we are bringing, which then allows a customer to make that
25 kind of choice, proactively, positively and willing to pay at the levels that we charge. And when I say that, meaning packaging the value. David?

MR MOFFATT: The question is about market share of
30 revenue, market share, not just customer numbers per se, because clearly not everybody can offer the value that we can. What we are trying to do is drive total consumer share through providing access products where we have obviously performed across all of those
35 categories in terms of driving share, but then doing exactly to, and so ditto to what Deena said, the integration of those, and where Holly - the MyConnect product is, it makes those access mechanisms much more valuable. And as we integrate fixed access and have
40 services that move across them, it makes them far more relevant to a consumer, and that's where we are different from our competitors.

But you are right, there is a lot of competition out
45 there, which makes a mockery of those that keep referring to this concept of monopoly. There isn't, there's massive choice of consumers. In our case we are going out to serve the whole customer with multiple access things to drive revenue market share through
50 integrated services.

MR TRUJILLO: To add a little bit to David's point, if you go back to our full year results, we outgrew our nearest competitor on broadband, about 4X to 1, is that

right? And we outgrew our nearest competitor on wireless services revenue. Their growth rate was about 4X again. So I think on a consumer side, Mark, it is not so hodgy-podgy, or whatever your phrase was. Next
5 question?

IAN MARTIN, ABN AMRO: I may have missed it amongst all other things you talked about today, but has someone talked about IPTV and where the development of that
10 product and the deployment of that product has got to, and what it means for the Foxtel relationship? I think the non-compete agreement expires this month, and what will replace that? Or will it roll forward? Kim made a point that Telstra is quite important still for the
15 development of Foxtel's plans and prospects, but you have this other opportunity in front of you, particularly as high speed broadband rolls out, to offer your own subscription entertainment services. How do you choose between that and retaining the Foxtel, the
20 benefits you get out of Foxtel?

MR TRUJILLO: Ian, you listened well. We didn't talk about IPTV, but it's for the very reason that until we get all this NBN stuff sorted, then that until we get
25 all this NBN stuff sorted, then that will enable us to get clear and defining publicly what we will do or not do relative to these services. So let's put that over there, so you were listening well.

30 In terms of the criteria that I use, in terms of thinking about it, Foxtel - I have said this before - is an important asset of Telstra's. We have done the hard yards as an investor in the business with the negative earnings, the negative cash flows and other things. And
35 Kim had us and News Corp and the Packer family as investors, and I think Kim has done a terrific job now building the business. And so it is an important business, and as you saw from Kim's presentation, there is a lot of growth ahead of us in terms of what we are
40 going to be able to do. It is an important part of our media comms strategy. I want to be absolutely clear, no doubt about that.

The question now about IPTV going forward is how can we
45 make it complementary with other services that we can deliver in an integrated home along with what you have seen on an integrated business platform that you heard a lot about today, as we continue to add value for
customers. We have lots of thoughts and ideas, but
50 again, we don't talk about things until we are ready to do something about them.

RICHARD EARY, UBS: I have three questions. The first one to David. At the start of your presentation you

talk about a number of contract wins coming through.
Can you give us a feel in terms of looking at the
overall revenue stream, how much is going to churn off
in the next 12 months so we can get a feel, but also how
5 much big revenue opportunities are out there from the
business market that could offset that or provide
continued growth? That would be the first question.

10 The second question is about, there has been a lot of
push today in terms of mobile speeds accelerating in
terms of capacity and coverage issues. There hasn't
been any talk about any substitution risks in terms of
mobile substituting fixed access. I don't know whether
15 you can give us a flavour of whether that has
accelerated or whether it hasn't. Obviously, clearly we
have heard from a number of your competitors that
wireless broadband are outselling fixed broadband on a
weekly basis.

20 The last question, going back to Bruce, is that you said
the metro books are done pretty well. I don't know if
you can give us a feel for yield and volumes. Clearly
there have been price increases put through, but if you
can comment on the volumes as well, please?

25 MR THODEY: Was that a business question to me? And the
question was what sort of churn off?

RICHARD EARY: Yes, if you look at the revenue pool
30 clearly there is a lot of revenue contracts that come up
for renewal, so isn't there a significant proportion
coming up for renewal? Isn't there a business risk?

MR THODEY: No, no more than normal. That's why it is
35 critically important to drive out longer-term contracts
so you haven't got as much churn in contracts. And as
that's going up, we're getting less. However, still
every year it is a big number. You are talking about
\$1.5-2 billion of contracts in the market. There is no
40 particular blip coming up. The blip I referred to was
customers are now looking at outsourcing. That was a \$2
billion number. So if you've got, well, CBA is in the
market at the moment, as you know, ANZ, Tax, so there is
the blip, which are five year type contracts where we
45 take over the total management. That's the difference
that's going on at the moment. Does that address your
question? Which is a great opportunity going forward.

MR MOFFATT: On your substitution question, if you look
50 at us 10 years ago, you'll see our primary product line
- and John is an encyclopaedia on all matters of this
nature - STD was just right up there as the most
profitable and largest consumer product line. Today of
course we have managed all of that substitution,

changing behaviour as people have found different ways to communicate. And so too of course people will make choices, but what we have demonstrated today through the integration is there is a very big role for fixed
5 broadband, as well as there is for wireless broadband and the way that works together, as well as there is for mobiles, and for pay TV and how that comes together.

10 Of course that shift is happening depending on the segment. Some segments have particular preferences about what kind of access they prefer. It happens the same in the business as well.

15 We are always managing substitutional effects in terms of what we are doing. What we are driving for is obviously this combination of access technologies and integration, and serving the whole customer to give us the opportunity for revenue growth at a lower unit cost, which is the shareholder value equation. Of course
20 there is going to be substitution effects, and yes, we see that, but at the moment we are seeing very good sales of fixed broadband as well as wireless broadband.

25 RICHARD EARY: What I really wanted to focus on is that if you look at the access substitutions in the point of the home, given that wireless broadband numbers have accelerated within the market, have you seen any basic increase in the number of disconnections in terms of PSTN within retail or in the SME Smart?

30 MS SHIFF: There are two sorts of substitutions you are talking about here: one is between broadband types and one is between broadband and traditional accesses. To date we haven't seen any evidence of substitution
35 between wireless broadband and fixed broadband. They are appearing to be acting entirely as complementary services one to the other, and indeed we sell them as complementary. One might be a restoration for another, and one might be the extension of a business from the
40 office out into the field. We play to that.

It appears that the reason why wireless broadband revenues are so much larger than the fixed broadband growth which is also good, is because in my market and
45 David's market, they buy multiples for their employees. The fixed and the broadband fixed substitution effects potentially substitutes but we haven't seen a cannibalisation effect occurring in our space.

50 RICHARD EARY: So there is no real growth in mobile only homes, from what you have said?

MS SHIFF: I am talking about business here.

MR TRUJILLO: I am sure that there is some, but it is not showing up on the register as an earthquake or major tremor in terms of the momentum of our business. We will announce our results in February for that half, and
5 you will get a chance to see what the data is. The punch line is I'm sure there is some, but again, it's not changing our business model because our business model is different than everybody else we compete with. We integrate services, we make them complementary and we
10 add value to them so the customers find value both in fixed and in wireless. And that's part of it, and the difference here. The customer experience is also different, and we will continue to extend that lead with all the other things you saw today.

15 RICHARD EARY: A comment from Bruce on yield and volume?

MR AKHURST: I haven't given that detail out before and it varies between markets. What is happening in Perth
20 is different to Adelaide and Brisbane. But overall, I can say with confidence that we are very pleased with the result. It is better than last year. We have not completely finished. There is a tab and an inside cover that UBS would look good on. On top of that, we are
25 continuing to see very strong growth in our online products and mobiles now.

I should mention, because I haven't, another spectacular result in White Pages, both print and online are growing
30 very, very strongly, and all of these results are at the head of the field. I guess I can say, take Melbourne for example, after you take account of businesses that have gone out of business we will have more customers than we had when we started, so there is some really
35 promising signs there.

Our usage of the books are improving. Of course we are distributing more books and the distribution is more effective. So all these metrics are showing a very
40 healthy business, and we are very confident going into the next year.

MR TRUJILLO: We will take one more question. Christian, you're up.

45 CHRISTIAN GUERRA, GSJBWERE: I have actually got three questions, if that's okay; one person, three questions. Firstly, Kim, I must admit that when I look at Foxtel I am probably most concerned about the possible changes to
50 the anti-siphoning list which the free to air networks are pushing very hard for, rather than maybe the impact of the economic environment. Can you share your take on that with us, and what changes we may or may not see over the next 6 to 12 months in terms of legislation?

Secondly, a question for Justin, or maybe for David on Bigpond. We have basically seen a fairly phenomenal performance in terms of you are not only increasing market share but increasing ARPUs in terms of Bigpond broadband. How sustainable is that in terms of your future planning?

My third question is for David Thodey on E&G. I must admit, David, in terms of the economic environment and macro conditions we are in I am probably most worried about your business, simply because the last time we had a fairly severe downturn for corporate Australia, which is back in '02-03, your business went backwards by 35 per cent in terms of sales. Is today different? Are you better positioned? Is the competitive landscape better for you guys, given the investments you have made, et cetera?

MR WILLIAMS: Christian, I have no perfect crystal ball on the anti-siphoning list other than the capacity to make pretty free-flowing liberal commentary about what a profoundly bad piece of legislation it is, how completely out of tempo with all world exemplars it is. For those of you who aren't familiar with it, if you exclude the Olympic Games and Commonwealth Games, there are over 1300 events on the list and the nearest competing list is in Britain which has 11, Italy has five, America has none, New Zealand has none, Canada has none, most of Asia has none. It is an outrageous piece of protection for one set of incumbent players, namely the terrestrial television networks.

The government has indicated it'll do a review. It's required by legislation to do a review in 2009. The government has indicated it is unhappy about the Socceroos' qualifying matches for the World Cup not having some form of protection, given it was Foxtel and Fox Sports that rescued soccer in Australia and invested in soccer in Australia, and committed to Australians that it would transmit all of the soccer games live and uninterrupted, would transmit all Socceroos' games live and the reward as in so many of these things, was to say, well, that's all very interesting, now drop dead, we will enact this piece of additional restriction.

I don't believe that it is sustainable in this day and age that these kinds of restrictions can continue to operate. Markets work. It is impossible for a company like Foxtel to do a lock up, even if it wanted to, because sports rights should be controlled by the people who actually run the sports.

They will always manage a mixed economy as they do in the United States or in Canada or in Britain between terrestrial television and between subscription television in order that they can actually match money with visibility. So that you get a premium on subscription television, because you have a different kind of experience, and in terms of mainstream mass eyeball style transactions, you get a different kind of transaction, but that's very good for sponsors.

Now at some stage the Productivity Commission and the ACCC, both of whom unusually in this instance, are resonantly on our side, and have repeatedly written substantial reports over and over, saying this is a ridiculous piece of legislation and completely out of all possibility of defence in the modern world. At some stage governments will listen. Change is hard in Australia, we will continue to advocate for reform. The reform we have put to government is one that unusually has no losers. We've said we should introduce a 'use it or lose it' principle. The rules have been there since 1994.

We have said that which terrestrial television does not cover should come off the list, in order that they do not continue to enjoy stranglehold control over the negotiation process. It is a very simple proposition. That which is on free to air television continues on free to air television, doesn't have any public disadvantage attaching to it; it's good for sport, it opens up the sports markets, it opens up the whole environment for what should happen which is robust competition in the service of Australian consumers.

The argument is irresistible. Only Neanderthals would take an opposite position.

MR MOFFATT: I have a question of what we're seeing in the fixed broadband market, and the reasons for success in driving both ARPU and subscriber growth, a number of great factors have been there. Firstly, very high quality access, early adoption, and that penetration is now pushing up as you know, so obviously in just a market sense, the rate of growth will change over time with that. But it's also being driven by great content which Justin has been a huge champion for, right from the get go. And that is very unique, and we still have those value propositions that help us to drive ARPU in terms of what we provide in a segmented way to our customers. But obviously in that access sense, it is better if we can serve the whole customer in an

integrated way. But we still rely very much on the innovation from Holly, from Justin, to bring that together to keep driving ARPU in terms of our distribution strategies.

5

But it is about winning market share as well. We love to compete, and we're out there every day measuring against that benchmark about all of the other, hundreds of people coming at us - we call it zone defence - and from our point of view, aggressively moving out there by bringing the best of what we have as a collective package, to keep growing share and ARPU. And when I say share, I keep saying revenue share, revenue share and ARPU, because we get a disproportionate leverage for each revenue dollar, given the value of our integrated model and the lower cost of that, and that false to EBIT.

DAVID THODEY: You'd have to be cautious. Let me try and put some facts on the table that I think are different. Number one is, if you look at our opportunity pipeline, it's as big as I've ever seen it. Now the question is, will the decisions be delayed or will they stay to the current time frame? That's number one. Number two is, our offerings are fundamentally different to when we were in 2002. The migration to IP, the use of wireless, wireless data, is stimulating a lot of that growth. So I think that there's a different paradigm there completely.

30

Thirdly, I think our value proposition is different. We spend more time working with business units about how to deploy technology rather than the CIO trying to get a good deal on the price. Because the value propositions change. I mean, look at that Telepresence. 30 per cent out on travel by investing, what, a hundred grand in the Telepresence unit. That's where we've got to do to capitalise on the opportunity that the downturn has got. Now I'm not saying that's easy, but that's the reality of what we're dealing with. So technology can be the answer, not the problem, and that's the changed paradigm.

40

SOL TRUJILLO: Okay, we have a whole group of people waiting outside here for our next session. Let me wrap up very quickly. Hopefully all of you saw today the value of a strategy, and it's showing up in results. You saw the value of an architecture of a strategy that's associated with the front-end, the back-end, and the middle parts of the business. You saw the fact that we are moving from stage one on our IT onto stage two.

50

You saw that basically the innovation doesn't stop. And I think, Christian, to your question here at the end, when you have a value-based competitive strategy, where David can go to a customer and help them understand how we can help with productivity in a downturn, to take costs out, that's a lot better than trying to convince you just to buy more, and I'll lower your price.

Because that kind of equation is not one that moves big dollars within a company's income statement in terms of how they take costs out. The costs are investing small amounts in a relative sense to take big costs out. We're doing that in Telstra. You saw Greg's chart that talked about 50 per cent productivity improvements, field force productivity improvements, in three years. It's big because we're leveraging technology, we're leveraging good management with Mick and the whole team, in terms of what they're doing. We're leveraging it across the business.

That's the value because it's big dollars then. That's the value that we can bring, whether it be David's customers, Deena's customers, or even those of us that are consuming in our own homes and our own daily lives. And that's part of the strategy, of the story. We will continue to compete on value delivered to our customers.

So thank you for taking the time today. Hopefully you got what you were looking for in terms of a better understanding of where we are. We will talk to you again in February when we announce our results. Okay. Thank you.

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