

15 November 2005

Office of the Company Secretary

The Manager

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

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

Telephone 03 9634 6400
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

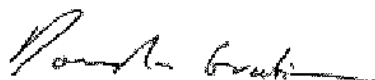
Telstra CEO Speech and request to end trading halt.

Attached for release to the market is a transcript of the speech made by Mr Sol Trujillo Telstra's Chief Executive Officer, to Telstra's Investor Day.

Telstra confirms that the Investor Day presentations to the analysts and the media have now concluded. Transcripts of the Investor Day presentations and the Q&A session will be lodged when available.

Telstra requests that the trading halt over its shares be lifted.

Yours sincerely



Douglas Gratton
Company Secretary

Telstra Corporation Limited

Strategy Briefing

Sol Trujillo's CEO presentation

15 November 2005

SOL TRUJILLO: Good morning everyone. We are here live in Sydney Australia. Obviously we are going to be web casting this meeting today and we have people from Europe, The States and other locations viewing in to this discussion today about this terrific company called Telstra.

My name is Sol Trujillo, and I get the pleasure to lead off this meeting. Now, most of you know that I have been here since July 1 in case there's any question. The people within Telstra might say here I have been here at least three years or so with the amount of work, the amount of hours, the amount of analysis and the amount of discussion and now some of the decisions that we are going to begin implementing.

I'd like to first of all say that there's a few themes that I would like all of you to make sure that you understand as you listen to what we are going to talk about today. It's very important as you think about it when you listen to all the presentations. The first point that I'd like to make sure that you are going to hear a lot about is the customer. In case you didn't hear what I said, the customer. In case it's not clear at the end of the meeting, it is going to be about the customer. We are going to focus on all of our customers, not just some, but all.

We are going to focus in many ways on how we change the game here in Australia. The game today is primarily around price-based competition which I think is a destructive way of competing ultimately for all the businesses if you are an investor, if you're a shareholder or somebody that's contemplating investing in most companies, we will talk about that because I believe in value-based competition. And that means Telstra as the market leader needs to lead and we will lead going forward.

You are going to hear a lot about differentiation in terms of Telstra. You are going to hear a lot about integration. When we talk about integration, I think about it in two dimensions; one is about integrating the company and the other is about integrating services for our customers. You are going to hear us talk about a unique customer experience during the day and all of my colleagues as they come up and present, they are going to help bring that to life as we talk more and more about our customers.

We are going to talk about market-based management, and obviously you will hear that as long as I am in the role that I'm in today, because it is a way of doing business and I believe in it and you are going to hear a lot in some detail in a clinical way about how you execute on a market-based management strategy.

You are going to hear us focus and talk about small businesses and medium sized

enterprises, which has not necessarily been one of the big focal points within Telstra, and again, in case you missed it, we are going to talk about customers. We are going to give you examples about customers because we are proud to think and live and breathe and operate this business around what we think are important value propositions for our customers.

At the same time, we are going to talk about some new extensions to our business, some growing extensions to our business around this notion of information services, around the notion of search and around the notion of transactions. And it all plays out in part or in a large part through Sensis but it's also going to be integrated with what we do within the core Telstra business.

We are going to talk again about Broadband. Let me just say very clearly, very loudly and very succinctly, Broadband is the key to the future of Telstra, whether it be on a fixed platform, whether it be on wireless. And we are going to spend time talking about that today obviously in particular Justin Milne talking about our strategies relative to Broadband.

But at the end, when you start thinking about this business, you also have to talk about the shareholder. The shareholder is important to us. It's important to me personally in terms of the journey that they have been on associated with Telstra and we will talk about that because our job is to create value ultimately and hopefully the strategy that we describe to you today will be clear in terms of how we intend to create value for our shareholders.

So, let me now take a step back and talk about the process that has been underway here at Telstra. A lot of people have been asking the questions, so what do you think? What are you going to do? Etc. etc.. And obviously we haven't said much because basically I'm a facts and data kind of person. I like to get the analysis done. I like to make sure that I understand where the business is, where the competitors are, what the market needs are and also where the processes and other key elements within our business stand as we think about operating this business on into the future. Because Telstra is a great iconic brand and it is also a very important company within the context of Australia. There is no company anywhere in this country that touches more people.

This company also touches as many shareholders as any other company in Australia. This company underpins all the companies that we compete with. So it is important what we say today and it is important that Telstra be healthy, vibrant and growing in terms of the context of how we think about Telstra on behalf of our shareholders today.

The journey has been about analysis. It has been about facts and it has been about data so let me just tell you some of the things that we have been looking at. Clearly we've been looking at our networks and we are going to talk about them. We have been looking at our systems and our processes associated with them. We have been talking about and looking at our training of our people. Looking at the products, the product mix, the product development processes that we have; looking at how we

have gone about allocating resources within the business because that is as important as I think about any company making the right bets, betting on the right technologies, the right people, the right products, the right services and all of those related issues. It's about dealing with competitors. How well do we know our competition? Are we responding to our competition or are we leading the competition?

Thinking about regulation. Now clearly that's has been in the news. There has been a lot of conversation about that and it has had a lot of conversation simply because it's important. You will hear us touch on that today but that's not the primary focus of this meeting today. It really is about the business in terms of how we think about running this business going forward. It is about suppliers. Which suppliers that bring the greatest capability to help us do and execute on the vision that we have for this business. It is about technology and again it's all about customer needs ultimately in terms of how we drive this business.

So part of the process has been about listening, listening to our customers, listening to our suppliers, listening to our employees, listening, yes, in some cases to our regulators, listening to basically anybody that has a touch point associated with this business.

Now, associated with that, one of the things that I needed to do, because obviously coming in as the new person I couldn't do this personally all myself, so I wanted to bring in some people that could help me in a transitional way to look at the business. People that were world class in terms of their skill sets, in terms of their experience, partnered up with the people that existed here in the business as we thought about July, August, September, all the way up to today. We have also brought in a consultant, a consulting company, Bain & Company, that have experience not only with me in The States and in Europe, but also with many other world class companies in terms of transformation, in terms of managing problematically change within a business in a very disciplined kind of process. Ultimately, the key for us has been to drive to making real decisions as we think about our business going forward.

So, let's take a little bit of a journey here real quickly - let's look in the rear-view mirror if you will. As I think about the business, we are going to look at costs. We are going to look at revenues. We are going to look at processes and obviously certain pressures that are upon the business. Starting first with the cost story and cost scenario, I think you've seen with the recent announcements, whether it be at first half last year announcement, the earnings results announcements that we made on August 11 for last year's full year, you can see that costs have been growing fairly dramatically in this business.

It's important to note that they are growing in the wrong direction. On August 11, we shared with you that our retail expenses were growing at 10 per cent. Our wholesale expenses were growing at 12 per cent. When you think about OPEX. Now, that's not a pretty picture to inherit when you walk into a business, but there's a reason why that some of that has been happening. Obviously our network in IT, infrastructure, and to some extent architecture has been affected by an original design that started

decades ago that was built for a purpose that was different that the kinds of services and capabilities that are being offered today, and as a result, we have had a lot of things added on to our networks and our IT infrastructure that has added a lot of complexity and with complexity comes cost.

So when you think about new services, new capabilities, you always have to think about how you can execute and implement, and with that comes more cost. Now, I will also talk about volumes and Greg will talk about volumes in a little bit. Volumes have been increasing dramatically. As you think about this business today and you look at the infrastructure that we have today, we have too much of everything. We have multiple networks, multiple fixed line networks, multiple wireless networks. We have over 1200 systems embedded in our business today. We have over 150 call centres. We have or did have over 20 ad agencies. We have 1,000 products that we offer.

We have 41 buildings in Melbourne and Sydney alone. Now, when I look and think about cost structure, those are key drivers of cost structure in terms of can you afford it all? Should you have it all? And if not, then what do you do about it? Well, let me just show you a quick illustration here of this network that we have today. Greg is going to go through it in some detail here. Greg is not going to like this network picture that I have because he has a nicer picture, but I call this - I won't tell you what I call this chart - but can you see that there's a whole lot of core networks starting with the circuit switch network that have been added on. Everything gets bolted on over the last few decades in the terms of the way this business has evolved. Let me be clear, this is not unique to Telstra. This is associated with every PTT or telephone company around the world. So this is a challenge for every company. The question is have other companies started transitioning sooner and in bigger fashion than what we have done here at Telstra? So we will talk about that and Greg will talk about that in some detail but you can see lots of complexity in terms of the business.

The next chart that I have here is one that just fundamentally factually illustrates what is happening in terms of volumes in this business. The volumes are growing exponentially and there's a simple reason why. Those of you that have been covering the industry for let's say the last decade, you remember the big fibre craze and you remember the big Broadband conversation about inter-office fibre and inter-office facilities and companies like Global Crossing and Quest and a lot of other international companies that were building out these big fibre backbone networks.

Well, it was all about bandwidth that was going to be happening. Guess what? It is now happening, it is now happening big time in Australia simply because now customers, local customers, consumer customers in addition to the business customers now are starting to use Broadband in a big time way which is creating huge amounts of traffic and the way that the networks have been architected historically, they were not designed to accommodate this kind of volume. So it's got to be addressed. It's got to be dealt with because with volume, volume is in some ways good but if architected wrong, volume simply means cost.

But that's enough on costs. I think you get the picture. We've got a story here that

costs are growing significantly driven by key reasons within the business as to why, but now let's talk about revenues. As we look at the revenue picture, clearly you can see that over the last couple of years, prior to the last reported year in '03/'04, you can see that we barely had any revenue growth. Now, in the last annual fiscal year, we showed growth but part of that was tied to some anomalies around handset subsidies, non-handset subsidies and the way that the market was growing relative to reporting of revenues.

But you could see the first half of last year we grew at slightly under 5 per cent and the second half you saw the deceleration beginning where we were growing at about 2.7 per cent, and obviously this year we are looking to grow probably in the range of 1 to 2 per cent. Rapid deceleration in terms of the business. Obviously we have talked about one variable in particular that's been very important, and again, this is a global phenomenon. It's about the decline in PSTN revenues in terms of how people are using the classic traditional telco and now siphoning a lot of that volume off on to other companies or in some cases switching it off on to wireless networks and in some cases taking it off into Voice Over IP and other ways to complete calls.

We are also seeing a slowdown in the wireless revenue growth. Now, I think all of you have probably covered the fact that some of our competitors have recently announced what I'm just going from headlines I've read, disappointing results in terms of wireless growth. The reason why is because there's a fundamental shift happening and a collapse happening in some of the pricing architecture within the wireless sector. Now, has that happened elsewhere? Has that happened in other parts of the world? The answer is yes. Now, again I've seen some of this movie before having lived in the US and operated in the US, having lived in Europe and operated in Europe, it is happening elsewhere because some of the classic pricing architectures and structures haven't made sense, and at the same time, you have disruptive players within a market that think that the only way that they can take share is by true discounted pricing bundles, packages, whatever you might want to call them.

At the same time, we have a phenomenon here that affects us probably more so than any other country in the world and that's around regulation. Where we think about the ability to grow our pricing, deal with pricing, do some of the things that we do is somewhat hampered by the processes that we have here, and on top of that then, we have a process within Telstra that is very, very slow right now relative to new product revenue development. We don't have great processes today to start finding substitutions in terms of revenue streams to offset some of the declines that are coming in terms of the business.

Clearly, differentiation is key in my mind and I've seen it in the UK. I've seen it in other countries where you have to move on find ways to differentiate as you compete in the marketplace. We have a scenario here where our growth platforms are not yet offsetting the PSTN revenue losses or at least fast enough. At the same time, back to this cost revenue kind of mix, the revenue sources that we now have versus the PSTN sources, the margin nature of them is much different and it's less rich as we think about the business going forward.

Now, let me just show you this chart real quickly relative to the increasing decline of the PSTN business. Again, pretty self-explanatory. We have some forecasts here in terms of where we think things will go relative to PSTN, and again this story is not unique necessarily to Australia because of the fact that there are many competitors, there are many price plans, there are many substitution opportunities that exist in the marketplace.

The next chart basically goes on to show you that fact. It is a fact that many countries and their telephone companies have in essence experienced the same thing. They might have started sooner but the story is pretty compelling here and pretty consistent which is once you start in that decline when it starts accelerating, it stays that way. The only question is can you slow it? But you can eliminate it and that's the essentially one of those facts of life. Somebody asked me back on 11 August a question about Australia and some of the margins and some of the price levels and some of the things that have been unique to Australia in the past. They asked me did I think that this would continue. My answer was at that point of time, "The laws of gravity work in Australia just like everywhere else. We are seeing them come to bear here in terms of our business."

Now, I do want to emphasise this point about minimal new product revenues because that's our job. That's what Telstra management has to do. We have to innovate, we have to bring to market new revenue sources so that we can offset some of the declines that we are experiencing. But this chart indicates that we have to fix our processes or maybe in some cases just build new processes so that we can in fact accelerate revenue growth. You are going to hear us today talk about some of that acceleration in terms of creating new products, new services, really tied to the applications and services layer of the business because as we evolved, it's really going to be fun for this next generation of competition under this new structure that we will discuss today.

All of this when you talk about revenues and earnings - I mean revenues and expenses; it always leads to earnings. Now, I put this chart together because I wanted everybody to understand that we have a lot of sympathy for our shareholders. I say that very straightforward. When I look at T2 and I look at the timeframe in which T2 happened and you see that the EBIT growth at that point of time was 16 per cent and you look then at first half 2005 and EBIT growth being at slightly under 6 per cent, the second half of '05 being slightly negative and the guidance that we gave on 5 September being in the negative 7 to 10 per cent range, you can see that this has not been a fun ride if you're a shareholder of Telstra.

But those are the facts. The question is can we change those facts going forward so that the experience is different? So it has been an uncomfortable ride for our shareholders. T2 as I described, obviously dramatically below that level. The current price is 20 per cent below the price when I first got here. Lowered earnings guidance in September in '05 and obviously I said it at the time, say it again, I've never had to do that in my life before and I've got a long life in this industry. It was not a pleasant experience for me to have to stand up and do. Now obviously there are many factors and clearly regulation and legislation are factors in that process.

But the most important thing at this stage is we have a lot of uncertainty relative to the new legislation and relative to some key pending regulatory decisions. At this time, obviously as we do the assessment, the growth prospects, if you think about a pipeline, are somewhat limited.

So, as we think about the business model and the challenge associated with it, obviously my conclusion at this stage is that the current model will not get us where we want to go. So we have to build a new model. That's kind of the key punchline here. So as we think about it, where do we go from here? I want to make sure that as we talk about where do we go, you are going to hear a lot from my team here today, but it's pretty simple. We need to grow new revenue. We need to create new revenue streams and we are going to be passionate about that.

The good news is I've had experience doing that in The States; I've had experience doing that in Europe and in other countries and it is do-able when you really understand customer needs. Clearly, we are going to have to cut costs. The cost structure of this business is too high. Period. End of story. And we are going to be doing some things and taking some steps here and we've already started in terms of reducing some of the costs in our cost structure. But also, we need to change the game.

We, Telstra, have to act like market leaders in the marketplace. Whether it be in terms of pricing strategies, whether it be in services and service delivery, we have to lead and we are going to lead in terms of how we execute on the strategy. Fundamentally then, it requires a new economic model. I will talk about that a little bit later because the good news is as we evolve on the strategy that we have in mind here, the economics of the business will change again assuming that we execute, and assuming that we can deliver, and there's no roadblocks in the way to delivering.

So as I think about the company and people say to me, you know, how would you describe the company going forward? Here is the way I describe the experience that I would like our customers to have. And that is, to give our customers a powerful and seamless user experience across all devices and all platforms in a one click, one touch, one button, one screen way, whether that customer is an individual consumer, whether they are a small business a large business or a government agency.

The reason why I say it that way is because this is not about bundles. This is not about triple play, it's about a customer experience. There's one lesson in consumer behaviour over the years, thousands of years: The simpler you make it, the more people buy or the more people use. Right now, our whole industry, when you try to figure out how to use a triple play, how to use the devices that you have today - not all that simple. You can look at your cell phones, you can pick any one of them, but there's hundreds of applications and capabilities in a device, but how many do you use when you use that device?

Now, I can tell you on this device I have got it one button simple for certain of the things that I do every day, like my calendar, like my e-mail, like my SMS, like my -

pardon the expression - USA Today Sports from the US. I still am a sports fan of teams there in addition to the ones that I'm becoming a fan of here. But all of that is one touch. Guess what? I use it. I think about other things I'd like us to be doing that were one touch so that when I am driving home at night or driving to work in the morning, I can do one touch and start listening to my emails because I make use of time. As a consumer I'm willing to pay for it. And not only that, I'm willing to pay a premium because it really adds value in terms of my life and my lifestyle.

So this notion of one touch, one screen, one click, one, one, one, is going to become pervasive. Do we have that today in Telstra? The answer is no. But will we have it in the next six to 12 months on various things as we roll out, the answer is going to be yes. And that will be the ultimate test because it is about the customer and it is about the customer experience, and I can assure you that we will begin differentiating ourselves versus those that we compete with.

So let me move on now and talk about some of the transformational decisions that are going to be reflected in what you are going to hear the rest of the day. The first one that I'd like to talk about and you've heard me talk about literally from the day that it was announced that I was coming here, and that is about this notion of market-based management. I like organising a company around customers and their need sets. And the way you do that is you find out what their needs are. You do the research, you do disciplined research, a lot of research, to make sure you understand customers' needs. When you have all that needs research, you can then package or group customers into segments, and I'm not talking about large business, small business and consumer, I'm talking about much more than that. So that we can in fact be very laser-like in terms of how we compete in the marketplace for customers' business.

So you start with the research, the needs based research, you go in and you group into segments and then from the segments then you can start developing value propositions. Value propositions segment by segment by segment by segment. But that's not enough. Because the key then, and again the big differentiation, is what do you do at that point? How do you operationalise this notion of these value propositions? And the way I think about it and the way I've done it in the past is you execute it in terms of the product sets and applications and services by segment. You operationalise it by the channels that you use to interface with those customers. You operationalise it by the service experience that the customer wants.

Some customers simply want to do everything through web interfaces. That's the way they like it. We will give them that experience and at the same time there's customers like me that say "I don't have time, you come here, you do it, you do it at the time that I want you to do it, and I'll pay a premium and just get it done for me." Well, that's all part of the process of segmentation and operationalising on this strategy. It's about training of people, the employees that we have in the business, and what they know how to execute for that customer in that segment for that value proposition that we have developed as we get into that.

Now, Bill Stewart, I get excited about it, but Bill Stewart is going to talk about really

how you implement it here in a little bit for you. But it is very important and that's kind of the first key pillar of how I think about transforming this company.

The second key pillar is associated with what I have called the one-factory model. Clearly, many of you have reported or covered Telstra over the years and the comments been, "A company full of silos" and the answer is, yes, many silos which led to a lot of redundancies, duplications and most importantly, lack of integration in front of the customer. Because at the end of the day, for any of you that are customers of Telstra, you don't care about the department, you don't care about the subsidiary, you don't care about any of that. What you care about is getting what you want delivered to you the way that you want it. That's the punchline.

And so what we are doing and going to do is essentially enable that to happen first by creating what I call the one-factory model. That is, that we are going to create one factory that's going to be lean, that's going to be mean, it's going to be customisable so that we can deliver the services that Bill and others are going to identify through the segmentation kind of process.

Greg will talk about that a little bit later because that involves a whole lot of restructure in terms of our business. Beyond that then, as we think about our business, I want to make sure that everybody understands more than just this notion of one factory and breaking down the silos is that we are an integrated company. What does that mean? That means when a customer deals with Telstra, they can deal with all of Telstra. When a customer uses Telstra's services, whether they come from Sensis or BigPond or Telstra core, they are all going to interoperate and they are all going to interoperate seamlessly. Again when you hear from Bruce, when you hear from Justin and David and David, you are going to hear some more about that.

Now, beyond that then, comes this notion of integration of services. That is where the magic is going to be in terms of the customer experience. That's where my experience has been in terms of reducing churn, improving margins and also growing revenues in terms of the customer relationship when you think about the lifetime value of customers. All of that becomes important when you create that integrated experience because customers don't like plugging lots of things together or having to go through multiple steps to make things work. They don't. No, I'm probably misleading you. There is a small segment of the market that does. But most consumers don't like that.

So integrated services becomes a key part of what we talk about. You will see some examples and outside you will see some examples in terms of what we are talking about. But this is just the beginning. Now, beyond that then, it's important for me to emphasise one more time that we are going to be absolutely Broadband focussed because I believe Broadband is where mobiles were ten years ago. When you think about penetration levels, when you think about usage characteristics, when you think about a lot of the elements of Broadband today, today it is about getting access. Today it is about getting speed but the question is for what? For your email, for some browsing, for what? Under a segmented, micro-segmented business, it's going to be for all the applications and services that we are going to be delivering that you are

going to again hear more about from David and Bill and David in terms of their presentation in addition to Justin who I often refer to as "Mr Broadband" here in the company.

Now, beyond Broadband then, we need to make sure that we are understanding that all of this is going to get enabled ultimately by next generation networks and IT infrastructure. This is what I call the plumbing. I joke with Greg. Sometimes I call him the "chief plumber" of the business because this is a fundamental restructure that's needed within this company as we go forward in the business and you will see significant opportunities associated with capabilities that will deliver in addition to costs that we can take out of the business, and Greg again I think will illustrate that in a fairly significant way.

Beyond that then, it's important to note that we are going to be focussed on a new customer experience. When I talk about the customer experience, it's at literally every touch point. So it's about when you call us, it's about the product usage, it's about your bill, it's about when you have a problem, it's about how we update features and services for you to be able to use, it's about everything in that process. And what Bill and David Moffatt and David Thodey have been doing in particular has been mapping that through some key research that we are doing so that we are very clear segment by segment in terms of how we are going to differentiate the customer experience. Because again, those of you who make purchases every day - and you think about the relationship with companies that you continue to use versus those that you only do business with either when you have to or once - it is about that experience that you get. I will tell you that in this marketplace, we all can stand to improve a whole lot, but again, my objective is that Telstra will lead.

Now, a key thought for everybody here because this is centred on those of you who think about either being a purchaser or an owner of Telstra shares or those of you who recommend or don't recommend ownership of Telstra shares, it's very important to understand a new economic model that comes out of this process and set of changes that we are talking about. I have the long experience of being in the industry for over 30 years and I've been through a similar transition back in the mid '80s and I will describe it to you.

Back in the mid '80s in the US, we had a big company called AT&T and we had - it was often described as Bell System. Well, at that point in time, in the mid '80s, it was broken up and it was broken into up AT&T and the seven Baby Bells. Those that were associated with the Baby Bell companies, they were given kind of the local dial tone business. And AT&T basically got everything else. Well, if you were in that local dial tone business in 1984/1985, the challenge for you was where are you going to get your growth? Basically, in the US, everybody had a dial tone line. Everybody had dial tone. So what are you going to do for growth? That was the challenge.

Well, I would say today, when you look at what is happening with PSTN and the decline that's happening there, and the lack of innovation here, the question is what are we going to do now today? Well, let me step back to the mid '80s. Back then, we said what we are going to grow. We innovated around things like today that seem

passee, additional lines, because back then people assumed all you needed was one line into your home and a maybe a couple of lines into your business back then. Well, guess what? Now people have all kinds of services that go beyond that. On top of that, we started introducing simple services, customer calling features, caller ID, voice messaging, all kinds of other things that were delivered through a server that were essentially software generated and had nice high margins associated with those services.

We started improving the growth, we started improving the margins in terms of the business. We are at a nexus point, an inflexion point, like that today because we have got to change. When we think about next generation networks and we think about the IP platforms that are associated with it, we are going to be able to now start introducing new products, new services, new applications, new capabilities that we are going to be able to target by microsegment, to start creating feature rich experiences for customers. And those again are going to be software defined and therefore the kind of margin characteristics of the new feature sets that we will be introducing will be much different than what we have been living with which is a very physical environment where you have to build things, you have to have people in trucks do things and you have to have lots of people in the processes being able to execute and deliver on that.

That is a fundamental change in terms of the margin model of the business going forward. And again, we are not going to talk so much about the specifics of that because to me that's highly competitive information and I'm not going to spend time educating our competitors, but I can assure you that we are going to be investing in this business to develop those capabilities.

Now, beyond that, then, I've talked about this twice and I'm going to talk about it now for the third time. This notion of value based pricing versus just price-based competition. You have seen the price spiral; you've seen the earnings spiral that's now affecting every company here in Australia. I don't want to be part of that going forward because we can in fact add value going forward in terms of the business. It doesn't mean that we are not going to be price competitive, it just means that we are going to take the game to another level as we compete going forward.

As we think then beyond that in terms of the value-based pricing, we are going to change the nature of how we manage the business as well because complexity comes with numbers. Cost comes with complexity. One of the things that we have had associated with this business is it's almost like a government agency where we have lots of procurements with lots of companies in lots of spaces of our business. We are going to have to narrow some of that to take costs out of our business to simplify end-to-end responsibility and to be able to improve the customer experience that we have and Greg will talk about that but that is really key as we think about taking costs out of our business going forward.

In addition, I just want to remind everybody that we are in a great space today. When you think about opportunities, when you think about growth, when you think about all the things that we can do and should be able to do, is we are in a space classically

where we are a communications provider. Now, clearly all of us continue to communicate. What is changing is how we do it - not whether we communicate - because we actually communicate more today than at any other point in life. So we are in a good space. The question is when you do it, do you add value and can you do it at the lowest cost possible?

At the same time, we are all seeking more and more information. We have this unique company here in the world that's now probably the hottest stock, at least after the last couple of years, and that's this company called Google. They have made "search" essentially a common word in all of our vocabulary and search doesn't mean that I physically go out and look any more, it means that I go on-line and I look for whatever it is that I look for. You are going to hear a story today told by Bruce Akhurst that says Google Schmoogle. We are outgrowing Google in Australia. We are doing more, we are growing faster and we have more capability because we are more relevant in terms of how we think about growing our business here in Australia.

Finally, as we think about entertainment, clearly all of us whether you are a sports fan, a movie fan, any kind of fan, a gaming fan, you like playing games, you like competing with somebody, whether they be in China, Europe or The States, you have all kinds of new opportunities when you are networked and you have the bandwidth and you have one touch, easy to use kind of services to essentially use more, and use more means more revenue. And use more means more loyalty and use more essentially means reduce churn in terms of our business and the characteristics of our business.

Finally, transactions. That's the burgeoning new opportunity, and given our capabilities that we have within our Sensis business and that we have within our core infrastructure as we evolve it here, we are going to be a player in terms of facilitating transactions for our customers because we are relevant.

Now, beyond that then, I do want to be clear about our priorities in terms of focus. Australia is our priority. I often get asked the question, what about other opportunities and what about other places and other locations and I heard about you know, a Yellow Page company available in Europe and etc. etc? And the answer is, Australia is our priority. It's our first, it's our second, it's our third priority and that's where we are focussed right now in terms of the business. So we are going to be growing this business, creating the vast majority of our value through the assets and capabilities that we have here in Australia.

At the same time, I do want to make it clear that we will be opportunistic as we develop new capabilities and new competencies. If we can expand them into growth markets we will explore those opportunities but it's not so much about going out and buying companies and doing transactions that are mega-transactions, it's about finding ways to enhance value, importing the value capabilities into other locations.

I think the one thing that is commonly known but probably should be stated and I'll say this just once, clearly Telstra is committed to all of Australia. We don't serve parts. We are not limited and we think that there's opportunity wherever we are at,

and so when we talk about our wireless networks, when we talk about many of the things that we are doing clearly we have in mind all of Australia and we clearly will have in mind all of the segments that we will have identified and prioritised.

I like using a word within the business that is a test for everybody on the front end of the business. When I say the front end of the business, if you are in marketing and sales. And that is, when you come in for an approval on an initiative, whatever it might be, the first question I'm going to ask beyond the economics, is, "What is the differentiation? What is the value add? What cannot be done by our competitors? How is this different than our competitors?" Because differentiation is where you create unique value. You can look at any world-class industry leading company and clearly they are the differentiators in terms of how they compete within the marketplace and they are the ones that create the most value for the consumer.

You can look at the credit card industry and look at American Express. They truly have differentiated. I mean, they are world class in terms of what they do. Their segmentation, the value proposition that they bring and it has become one of the premier brands in the world. If you look at Toyota and you think about the intensity at which they go about segmenting the marketplace and focussed with intensity on the experience that they bring to their customers, it is about differentiation versus all the other competitors and that's why they are growing faster than any other company in the world. I like being a student of other companies, great companies, and that's part of their key and it's going to be what we are going to drive here within the business at Telstra.

Now, some of you, as you look at us, in particular as you look at John and I, John as the CFO and me as the CEO of the business, you are going to say 'what is the key driver metric as you think about the things that you are going to do and how do you think about approvals?' Well, the key metric for me is about ultimately returns on invested capital from a financial standpoint. That will be the driver. So when we think about new products, new services, new networks, any systems, new anything, the screen that people are going to have to pass is associated with the adequate returns, the competitive returns that we want to earn on behalf of our shareholders because we do take our duty to the shareholders very seriously.

Now, I did talk about this relative to the focus on Australia but I do want to emphasise the fact that we are going to be opportunistic in terms of our business because we do develop differentiated capabilities. And so we will expand again in those areas where we can in fact leverage our core competencies and we will talk about that some more as life goes on here at Telstra and as you see us execute in some key areas of the business. Probably the leading example I can give you today is primarily in the Sensis area where we in fact do have market leadership, global market leadership in terms of the performance there.

Now, you are going to hear this often during the day about one click, one touch, one button, one screen, one page etc. etc., because that's going to become part of our culture. Those things that we do have to be simple, they have to be easy to use and they have to enable what I call the customer to be in control. So keep on looking for

those and over time you are going to be able to challenge us in terms of how well we have been around executing that.

Now, one other point that I just need to emphasise, I said it at the beginning but I will say it again because this is a driving characteristic of how I like to run companies and that is about being the low cost player. Sometimes you can't control regulation, sometimes you can't control technology, sometimes you can't control markets. But the one thing that you can generally control within a business is your cost structure. I like having the flexibility of having the lowest cost structure in the competitor set that we deal with so that we have the flexibility. If there is a need to have a price battle, we can afford a price battle. Whether you need to be able to invest in new technologies, new services, new capabilities, you have the economic flexibility to be able to do that. That will be a driving mantra within this company going forward over the next few years as we look at taking the right cost position for this business.

Now, hopefully that gives you a complete view of the set of priorities and directions that you are going to hear from each of the people. I want to make one other comment. As we think about successes in our past, obviously one of the focus points that we have had is about geographic focus and that's been led by Telstra Country Wide. Today you are not going to hear from Doug Campbell talk about Telstra Country Wide because they have done a terrific job. They do differentiate and when you go out into the regions and you go out into the bush, there's no competitor that's even close to Telstra. So that's not necessarily been a focus for us because that is already running very well.

What we want to do is enable some of the capabilities there more. So, let me talk about one of the areas where we are going to invest more and grow more, and that is Sensis. I have referred to it at least a couple of times already, but let me just say this, and I can say this because I had nothing to do with it: Sensis is one of the best performing directory businesses in the world. I've had a chance to look at them, I've had a chance to use them, I've had a chance to compete with some of them, and obviously Sensis is very well run today. But I want to emphasise a couple of points because I am a believer that in the Yellow Pages business, you can let the core Yellow Pages become a PSTN if you're not careful. And that is, associated with continuing focus on innovation, continuing focus on customer service and continuing the focus on growth.

Within Sensis we will stay focussed in terms of that Yellow Pages, core Yellow Pages and White Pages business but I do have to say that Sensis is going to become even more. We are going to continue to build on our market-leading search and transaction business and we are going to transform it into the pre-eminent, interactive applications and services business here in Australia. You are going to hear a lot more from Bruce so I don't want to steal his thunder but it is a key priority for us as we think about our business and creating value going forward.

The other point I just want to emphasise is the fact that it will be integrated and you are going to see those experiences as you already do today in some of our mobile services and our ease of use so that we can drive more use and continue to dominate

in that space.

Some of the other businesses within our portfolio I will comment on. Clearly Foxtel is an important asset. I want to be clear on that. Foxtel is an important asset. When you heard me talk about information and communications, when you get into this entertainment category, the investment we have there is important. Now, has it performed as well as everybody would have liked over the past few years, for all of the partners? I would say probably not. But I believe given the short time that I've been here that we can help accelerate some of the growth and I will tell you that all the partners are clearly committed to being able to do that. We are going to do that in the context of leveraging off of some of the investments that we can make within our core business here at Telstra and also some of the marketing capabilities and some of the IT capabilities that we can help drive this business to grow even faster and more profitably.

In the case of CSL, CSL is a very interesting business. Now, some of you may question the wisdom of the transaction initially and you may have been right in doing so, but at this point in time, CSL is an important asset in our portfolio because we have an asset here that we can, in fact, enhance the value. So this morning, we have announced that we have signed a memorandum of understanding concerning a proposed merger of our Hong Kong business CSL with New World PCS Limited. The main elements of the memorandum of understanding are an exclusive negotiation period through the 2nd of December of this year to enable final agreements to be reached, and a merger is on a debt-free basis and envisages Telstra holding 76.4 per cent of the merged business and New World Mobile Holdings owning the remaining 23.6 per cent. Telstra will also receive in Hong Kong dollars \$244 million in cash.

Now, to me this is an important step because it is part of a consolidation. It keeps CSL in the market leadership role and the reason why this was intriguing to us was that they use a common network platform as our CSL business as well. So the value creation is going to be about some of the cost takeout that we can do in the business, while keeping the customers, while growing our revenue streams even faster within the combined business. At the same time then, it becomes I think a very highly leverageable asset as WTO requirements start being affected relative to China and as we think about other Asian opportunities because I can tell you that CSL is one of the best run mobile companies that I've had a chance to look at; highly competitive, great in terms of value creation and they know how to segment in terms of competing within the marketplace.

Relative to Clear, there has been speculation relative to whether we are going to build a wireless 3G network in New Zealand. The decision that I have made is no, we are not. The simple reason is that the returns on invested capital are not good enough in terms of what we do there. So I want to just emphasise the fact that we are going to live by the criteria that we say we are going to live by. At the same time I want to be clear that New Zealand is an important location for us to compete in for our business customers. We are continuing to look for some breakout opportunities so that we can focus on how we best serve our customers in that fashion, and I won't get into some of those specific tactics because we don't want to disclose certain things in a

competitive context. But let me assure you that we are concerned and continue to be focussed on how we serve our business customers in New Zealand in an aggressive fashion.

Beyond that, we have another element of our portfolio, Reach, which primarily has been focussed on serving its ownership. Obviously a huge amount of traffic that is carried on that network is Telstra traffic. As Justin and David and David and Doug continue to drive more traffic on our networks that has to go other places, in particular Broadband, you can see that the need is there but the need is there for us also to manage it and manage the network and the operations as effectively and efficiently as we can. We are doing that in partnership with our co-investor there.

So, let me move on from that into talking about what I would call stakes in the ground. These are things that I want to make sure that everybody understands how we are setting targets for ourselves in the business. The first category is around revenue. You saw the revenue story where the trend lines have gone negative essentially within the core business in terms of our current run rate. You have seen what has happened in the other PTTs relative to their run rates around revenues. What we are going to do and what we have done is build our plans around our ability to grow on a CAGR basis 2, 2 and a half per cent per annum top line growth. Associated with that we are going to, within the three year period of time, by the end of '08, get to a point where 20 to 30 per cent of our revenues come from new revenue sources.

In terms of costs, we are going to take out a large amount of cost but many of you in prior meetings have said, you know, "Telstra, you announced that you are taking out X hundred million dollars here and you are taking out X hundred million dollars there, but then, Sol, you just showed a chart that said costs have continued to go up, how do I reconcile you, how do I track you? How do I know whether you are actually taking costs out?" I guess the best way is to compare our cost structure as of 1 January when we begin implementing a lot of what we are going to be implementing. We compare it to the end of the period in '010, and basically I can assure you that our cost structure is going to be absolutely flat. The run rate in terms of our cost structure will be the same in '010 as it is essentially the run rate at the beginning of this coming year meaning the calendar year.

The reason why that's significant is because we are going to include in that the wage increases, the redundancy costs, the whole network transformation costs that are going to be involved which are relatively significant, the IT transformation costs, the employee retraining costs, a whole series of costs that we are going to eat within the context of what I just said of keeping our cost structure essentially flat over this coming five year period of time.

Now, we will have a bubble here in the first 12, 18 months or so as we invest, but I can tell you that the cost structure is going to remain flat over that period of time. If we can reduce it even further, we will. Now, in terms of EBITDA, we will have a CAGR of about 3 to 5 per cent per annum through FY10. EBITDA margins we will have in the low 50s range, 50 to 52 per cent. So we will be improving our margins by the nature of what I call this new economic model and the revenue sources that we

have and how we are going to market those revenue sources.

In terms of workforce, we are going to be reducing the full-time equivalent headcount between 6,000 and 8,000 over the next three years and between 10,000 and 12,000 over a five year period of time. Let me be clear, when I say full-time equivalents. Within Telstra today, we have full-time employees, we have part-time employees and then what we have are what we call as contract employees. Clearly, we have a lot of contract employees that help us get things done in our business today. So when I talk about 6,000 to 8,000 in the three year period of time or when I talk about 10,000 to 12,000 in the five year period of time, it's about the mix. We don't have the details of the mix yet. Until we get more detailed plans worked out I can assure you that that's the kind of impact that we will have to drive that are reflected in the financials that John will share with you a little bit later.

In terms of CAPEX, obviously we are going to be investing in terms of additional capital in order to transform the business, the networks, the IT and some of the other capabilities within our business. The punchline here is that after we finish the investing in 2010, we are going to be looking at probably a 12 per cent CAPEX to revenue ratio, but the incremental spend that we will have associated with the investment over the run rate that was in the plan prior to my coming here is in the range of \$2 to 3 billion in terms of incremental investment above the run rate that had existed prior to that. Which means we are going to stop spending on a lot of things in order to do that so that the amounts are not as high as they could be.

And then finally in terms of free cashflow, by 2010 we are going to be looking at range in the range of \$6 to \$7 billion per annum in terms of the amount of free cash generated in the business. So those are the stakes in the ground. Those are the things that we have communicated to our Board and that our Board has agreed and concurred in terms of our multi-year view of the business. So now we are going to have a chance to take a look essentially at the rest of the day in hearing from others. But before we do that, I want to ask you to take a quick look at some of the integrated kinds of services that we are looking at delivering here in the next, six, 12 months. So can we play that video.

(Video played)

SOL TRUJILLO: You are going to see some of what our team now is going to be doing in order to execute on this strategy. First off you are going to hear Bill Stewart talk about market-based management, then you are going to hear Broadband discussed by Justin Milne; consumer and small business by David Moffatt; government and large business with David Thodey; and wholesale from Deena Shiff and then Greg Winn will talk about our one factory model followed by Bruce Akhurst talking about Sensis. John Stanhope will then get up and talk about our financials, and then we will close with a summary from me at the end.

So with that then let me introduce Bill Stewart who is going to talk about one of the core pillars of our business here. He is going to give you a tutorial because it really is important I think for everybody to understand the science and the investigated in

market based management. Bill.