16 November 2005

The Manager

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

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

Telephone 03 9634 6400
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Analysts Question & Answer session – Telstra Investor Day

In accordance with the listing rules, I attach a copy of the transcript from the Analysts Question & Answer session held at yesterday's Telstra Investor Day, for release to the market.

Yours sincerely

Douglas Gration
Company Secretary

QUESTIONS FROM ANALYSTS

TIM SMEALIE: Good afternoon, Tim Smealie, Citigroup. Just a couple of questions. Obviously the regulatory challenge is huge. Would you give us colour around where your share will be, where you expect your market share to be in three to five years time?

The second question. You talked about the upgrade of the changes to the national 3G network. Does Hutch get access to that under the input sharing agreement?

SOL TRUJILLO: Let me take them in the sequence you mentioned. In terms of market share, I am not going to share market share forecasts under various regulatory scenarios because I do not know what they are. Under the extreme set of unbundled loop proposals, obviously market share will fall faster than under more pragmatic proposals that we think exist.

Some of this will be affected by the infrastructure, because clearly all the players in the market, I find it somewhat curious sometimes that they either do not understand or do not want to acknowledge that our ability to invest in the core affects their business as well, because all they do is ride on the Telstra network. Very few players out there have invested in their own infrastructure, and the one company that did invest in their infrastructure, they do not even use it because it is so damn cheap through regulatory processes to use Telstra's.

It is hard to predict market share, so I will not do that under hypothetical decisions, because I do not know what the decisions are going to be. We obviously are advocating and we are not shy about our advocacy, but I will not do that.

Relative to the strategy that Greg outlined on the 3G plan, Greg, do you want to talk about Hutchison and the relationship and the contractor?

GREG WINN: Basically, regarding Hutchison, we have already started talking with Hutchison negotiating in good faith around the requirements we have with our existing arrangement, and it is a commercial arrangement and we will leave it at that. Things are going smoothly from our perspective.

SOL TRUJILLO: Let me add to that. Everything is on commercial terms, and so the approach we take, the belief here at Telstra is that if you want to do things on the right terms, the right conditions, we will do it, and if you do not want to do them on the right terms, the right conditions, we do not do it. And I think that is the operating principle of most companies.

TONY WILSON: Tony Wilson, UBS. In relation to the investment that is dependent on regulatory outcomes and specifically ULL, at what kind of ULL price points will you need to have a major rethink of the strategy that you have outlined today?

A second question for Greg Winn, which is related: You put up a slide which showed us fibre to the premises and fibre to the node; I think the premises related to greenfield sites only. In relation to the fibre to the node, could you give us an indication of how extensive you think that might become for Telstra?

SOL TRUJILLO: Let us take in the two parts of the question you have posed. In terms of the core strategy rethink, the core strategy rethink is not necessary relative to ULL, in the sense that we are going to build a new economic model for this business, we are going to be aggressive in terms of broadband and our deployment of wireless broadband. In terms of our customer experience and the enhancement there, in terms of our focus on taking costs out of the business, those things do not change. I just want to be absolutely clear.

What will change, depending upon the outcomes on ULL in particular, is how much do we invest in fibre to the node or how much do we invest in fibre to the kerb or whatever fibre additional deployments are there.

I think that remains to be seen. But it does not change our strategy because we have some core initiatives that we have to execute in the business. What does change, though, is how deep and how far this goes in terms of our capability across all of Australia, because there are certain things commercially that we are able to do and there are certain things commercially that we will do, but then obviously there are other limitations that come in when everything is provided below cost.

In terms of the safe harbour elements, obviously that is another dimension. If there is a rule that says, anything you guys innovate on, anything you invest in new, you need to transfer wealth from 1.6 million shareholders to other shareholders, we will not do it because that is not in the best interests of our shareholders.

TONY WILSON: Could you restate the fibre? You put up a slide stating there was some intention to invest in fibre to the node. I wanted to get an indication from you how extensive you think that might be, in terms of the coverage of the market?

GREG WINN: The five cities that I mentioned, the five capital cities, approximately, we have engineered or designed to 20,000 nodes.

TONY WILSON: How many households would you be covering with that?

GREG WINN: I do not remember the actual households number, I think it is 4 million households, 4.1, and 5 million PSTN lines, in that vicinity, I do not remember the exact numbers.

RICHARD LONG: Richard Long from Deutsche Bank. A question on Sensis. Clearly that business is growing quickly and the expectation is that it will continue to do so. With the $3 billion target for revenues over five years, is much of that coming from potential acquisitions? If so, what is the framework for what you are looking for on that acquisition front?

BRUCE AKHURST: The core strategy, as I described it, is around growing that core. We are going to see Yellow Pages and White Pages continue to grow and we are also going to see significant growth in the online area. We have not been talking about what the split is between acquisitions and organic growth, but the majority of it is from organic growth -- very, very heavily in the online area.

RICHARD LONG: At a corporate level, Sol, in terms of any M&A activity that might happen in future, whether it be around industry consolidation or growing in adjacent markets, what parameters have you put forward to the board as being what you are going to be primarily looking for?

SOL TRUJILLO: First of all, I have told the board that M&A activity is not at the forefront of our agenda, at least in the near term. That is simply because we have too much we have to be focused on in terms of transforming the core of our business. So I just need to be clear.

When I think about criteria, it is what I said earlier about this notion of porting our core competencies that we can take to other locations, it is not about real significant M&A activity because you have to pay premiums generally and you have to earn back premiums and you get your business tied up in that. That is not to say we will not ever do one, but the real focus is if we can find the right partnerships and extend into other geographies and help others grow their businesses faster, we can both create value and create shareholder value for ourselves, in addition to others.

QUESTION: Christian Guerra from Goldman Sachs JB Were. Sol, thank you for your time this morning. I have three questions, the first one for yourself and Greg, the second one on BigPond, a couple of questions for Justin, and thirdly some questions for John Stanhope.

Firstly, I just want to chat to you about the transformation program. We have obviously seen this with numerous telcos globally, quite often they talk about the fact you need to run duplicate networks and duplicate billing systems for a fairly long period while you are employing the new network and migrating data to the new CDMA systems, et cetera, and I want to find out how long the duplicate costs while you are running the programs side by side will go on for.

Secondly, on BigPond, three questions for you, Justin. First, if you can go through the levers by which you will seek to increase your BigPond market share; secondly, a key regulatory issue for BigPond right now is the fact you cannot compete on equal footing with Optus in regard to things like zero dollar install, discounts for bundling, et cetera -- I am wondering if you can give us an update on the regulatory situation when it comes to new products and services; thirdly, I want to know how your plans for movie content sits with your fellow shareholders at Foxtel?

SOL TRUJILLO: Let me make a quick comment, then I will turn it over to Greg on the first part of your question.

In terms of the transformation, I have said this before: no-one that I know of in the world has done the full transformation of wire line and wireless together, because almost everybody has separate companies that they have separate shareholders or separate subsidiary requirements that they cannot integrate.

So when we talk about the transformation that we are going to be doing, it is about creating the hook so that we can create seamless experiences for our customers. So the core notion is about eliminating those redundancies that enable us to serve our customers differently than they have done in the past. That is going to be core in terms of what Greg and his team are thinking about. And those people that you saw on the big screen here before -- because there are some new challenges that we are posing to them to help us solve faster and in a more focused way than they have done in their past.

Greg, do you want to talk about the time frames?

GREG WINN: A couple of things. One, besides Siebel and Accenture, we had another consortium working in the same space with us, so over the last two and a half months we have done a lot of the requirements work in order to get the pricing done, and requirements work takes time. We have a little bit more specifications to do, but one of the key items is that we are going to do this transformation in two years from the time we launch it in the system space. So the issue of running dual systems, there is a couple of ways we are looking at it. One is that we are not going to run them for a long period of time.

Two, we have already identified a number of systems that we are going to shut down because we can stretch other existing systems because we have so much replication in the network.

Finally, we are going to invest some money in some short-term intermediate steps to allow us to decommission very fast some of the bigger systems that are costly. So it is a combination of things that have been worked in from the beginning all the way to the end, and once we start with it, it will be done, and in fact we have financial commitments with our suppliers being complete within 24 months of starting.

SOL TRUJILLO: When do we start the launch?

GREG WINN: From 6.30 this morning when we signed the paperwork. But we will have some definitions work done by the end of January. We think we will have most of the IT transformation, at least with the part we discussed with you today, which is the front of house, CRM and the bill systems, which are the massive expensive ones that we, they will be done by the end of 2007, the first quarter of 2008, we will be decommissioned.

JUSTIN MILNE: There is a clutch of questions there. First of all, the first question was about what are the levers for market share. There are a couple of hygiene levers. First of all, it is very important for us to have an attractive price in the marketplace but it is not all about price, but if we let ourselves be priced out of the marketplace, obviously we will be, so having a great price is the first thing of hygiene.

The second thing which is of superimportance for broadband customers is reliability, and we have been continually improving our reliability over the last 12 months. But, as you heard from Greg, these changes that will be made in the network which will give us one simple understandable network and will make a huge difference when it comes to reliability. The network that is envisaged will literally enable customers to plug a gateway box into our network and be provisioned - just like that. They will get an IP address - just like that. They will have to register, but it will take huge costs out of our business and provide a large measure of extra reliability.

The other thing is in this world we are heading to, where 50, 55 to 60 per cent of homes in Australia will be connected to broadband, they will buy a great range of services, they will buy all kind of services. So our job is to integrate those services in a way that makes it a one-stop-shop, that makes them integrated with this one click one touch kind of approach and to support those services as well.

I think in the world we will be in in a couple of years time, we will say, my home is connected now and I have computers all over my home, I have complications with this everywhere, who can help me with this and who can make it simple for me? And I think this is where we step in.

On the regulatory question of zero dollar install, we will continue to put out there good offers and good products and it is up to the regulator to decide what it is going to do about that or not. The fact is we have the most competitive marketplace in the world in Australia, and since we put $29.95 in the marketplace about 18 months ago -- which was supposed to make the sky fall down, it did not -- we have increased the number of ISPs competing and the number of people online and have fired up the market and things have gone fast since then.

We will continue to innovate, to get market share and to provide the best offers and deals to customers.

QUESTION: Were you concerned with the comments last week about the ACCC potentially looking at companies who are aggregating a whole lot of broadband content and what that might mean for BigPond?

JUSTIN MILNE: I really cannot see how that could possibly happen, because you would have to talk to them about that.

When it comes to broadband content, our content and our licences are really a long way down the food chain in terms of live free-to-air rights, then we come a long way down in terms of windows. I really cannot see how we can be denied those rights, but that is a long way out.

The other thing you asked about was our movie business and does that conflict with Foxtel? No, I do not think it does at all. In fact, going forward we are looking to provide Foxtel content which would be available on our service to download as well. Don't forget, our service is a download to PC service.

SOL TRUJILLO: I might add, in terms of the point about content, having operated and competed around the world, these things happen everywhere. When I was at Orange we had certain companies that we competed with that had premier league, the football rights. We did not. But we did not go crying to the regulator and saying, "Gee, help us. We are going to go out of business because we do not have the premier league soccer rights."

You have to compete. That is what a free market is about, and that does not determine whether a company is in business or out of business; you have to let the market work. And that is going to be our advocacy, it always will be our advocacy, because that is in the best interests of consumers, because on the one hand somebody may have an advantage, on the other hand that forces somebody else to find a different advantage to go to market. That is how markets work.

TIM SMART: Tim Smart from Macquarie. You have given us a lot of detail all the way out to 2010, which is probably the first time we have had that level of insight into your own thinking and hopes for the business, and that is great.

Two questions relating to the detail you have given. Firstly, going back to the caveat about the reasonable regulatory outcome, you have painted a picture that you clearly see the current regulatory outcome and current trend as being very unreasonable. What is it in terms of those forecasts, why would you put in reasonable outcomes when what you see today is not in your view reasonable; and can you give us some further update on what is reasonable in those numbers?

The second part of those financials, Sol, in your very long career in telcos, what has been your history of looking forward five years at capex numbers? I see in 2010 you have a very big dip down to 12 per cent of sales. Justin said 90 per cent of the applications on the internet we probably do not know about today. What level of confidence do you have that capex really is going to trend down in the industry in five years time?

SOL TRUJILLO: Okay. I hope you do not think I have been too long in the industry, in terms of your comments. But let me just say, on the regulatory thing first, every country in the world -- and those of you that cover the industries, you can verify and validate this fact -- is moving towards reducing the amount of regulations that exist, because almost every country has learned the lesson: you let market work and guess what, consumers benefit, all kinds of good things happen, including innovation.

What we have been saying is under what we are starting to hear from the regulatory body and legislation and other things, people are wanting to put more regulation in place, which personally I do not think is good for all Australians. It may be good for a competitor that is saying, "Help me more, subsidise me more," or whatever, but I do not think that is good for the consumer in the long term and it is not good for all Australians in the long term and it is not good for the economy in the long term.

What do we see as the trend? Basically it is what the ACCC has been proposing. If you look at their proposed pricing elements relative to unbundled local loop, those are dramatically below our costs of providing the service.

I like telling the story to everybody -- I have said this before -- when you put in a loop, a copper loop, it is not just the cost of the copper, it is also about the trenching, it is also about the ducts out there, it is about the technician that has to have it, it is about the technician that needs a tool belt, it is about the technician that also needs the truck, it is about the truck that needs gas, it is about the truck that needs maintenance, it is about the truck that needs tyres, it was about the warehouse that needs lighting and heating so you can park the truck and hang the tools, and it is about tissue paper in the rest room. All of those things are real costs in running a business.

This business does not run on some academic little thing that says, well, on the margin it is only this. It does not run that way. Any business that I ever have known that runs on incremental costs, they do not exist any more.

So we have to change that. We have to keep on pressing that because the case for investment is about companies that are incented to invest, they earn returns and in this case in Australia, because Telstra is so pervasive and does touch virtually every customer, whether you are in the core city or whether you are out in the bush, it is important that Telstra be incented to invest. It is very important. So we are going to advocate that.

In terms of the trend, we want to affect the trend. We do not know whether we are going to affect the outcomes, and whatever the outcomes are then we have contingencies relative to what is appropriate in terms of our investing plans.

But you know the criteria: returns on invested capital really do drive that.

JOHN STANHOPE: If I can just add something. You are really also asking the question, why have you put forward a financial scenario where you may not get the outcome you want? I think that is what you are asking.

I think, and we think, that it was very important today to let you, as our shareholders, know what is possible. Because this is what is possible. We have already said that if there is an outcome from the regulatory outcomes that is not our expectation to what is totally possible, we are going to do a lot of it anyway. We are going to do the costs out, we are going to do the IT platform rationalisation, we are going to do a lot of the network rationalisation and do the wireless thing, so we are going to do a lot of it anyway. But there are elements that can and will affect what is possible.

But we absolutely believed when we came here today, supported by our board, that you needed to know what is possible.

SOL TRUJILLO: The last part of your question about capex and looking out for that period of time, there are moments in time in the industry -- if you look back over the last, in my case, 30 years, you can see there are moments in time when you invest in certain technologies and they are good to go for 10 years, 20 years. We went through some of that transition, in particular in the 1970s when we started deploying fibre, and people started talking about how that fundamentally would change the cost curve in terms of as traffic was growing, as more lines were added, as more usage started occurring and all that.

We went through some other transitions that I will not bore you all with, other than to say we are at that point now in terms of what Greg talked about with his plan. That is, when you think about the wireless network that we are going to be deploying, you saw a migration path not for three years, not for five years, but well beyond that when you think about a 4G kind of deployment. But the way that that transition is going to work, the way Greg has described it, it is no longer about having to take down and write off all that old stuff; it is about line cards, essentially a line card kind of change-out. That is fundamental. When that happens that really does in fact change your capex notion of what has been historical versus what is going to be required.

It is the same principle on the next generation networks. When you think about the soft switches that can handle millions of lines as opposed to tens of thousands of lines, there is a fundamental cost structure difference when volumes are growing. Now, volumes have been growing over the years but you always have to keep on adding in a correlated linear kind of fashion. This breaks that linear kind of curve in terms of how you think about those kind of investments. And that is really the key when we talk about looking at this kink.

So this is not about a hockey stick and all of a sudden the numbers look good, it really is logical, it is practical and it is implementable in terms of the way that we have thought about it over the last three or four months.

GREG WINN: I will give you one other example that I think really drives the point home, and Sol was just starting to touch on it, and that is the soft switch. In my presentation, I told you we are going to remove 116 class 5 switches and replace them with five mated pairs. So we are going to go from 116 locations where we do power additions, turbine additions, battery additions, building additions, to five physical locations where we will have this switching, and it is going to significantly reduce the infrastructure costs that are associated with running a network like this.

Secondly, I mentioned Moore's law on computing and costs. These new soft switches are fundamentally different than the types of switches that are in the network today and they will follow cost curves similar to what we have seen in the computer industry, and as we have more fibre out there, capacity will be a function of electronics more so than physical pieces.

JUSTIN CAMERON: Justin Cameron, Credit Suisse First Boston. A question first on mobile. It still remains one of the key both drivers for Telstra and I would like a bit more colour on the strategy. Obviously there are points on the move to 3G nationwide in Australia for rotating off the CDMA base, if you could give us a feel for that.

Secondly one of the biggest costs will be getting across from CDMA and to WCDMA and what numbers are you factoring in as part of that.

There was a lot of anticipation about Telstra going into the New Zealand market. Given the commentary that you will no longer be looking at rolling out 3G market in New Zealand, is that a target for TelstraClear in New Zealand? Typically the market has been guided to EBIT and cashflow positive by the end of 2006; does that still remain the position?

SOL TRUJILLO: Greg, do you want to take the CDMA conversion?

GREG WINN: We will build the 3G network nationally. Over the next 12 to 18 months we will actually have the infrastructure in place, then we will have the two-year migration time frame for the existing CDMA customers. It is our belief that, given the superior bandwidth and capabilities that we are going to have there, the customers who will nationally want to migrate will have incentives from time to time, but we will have an orderly transition and shutdown of the network from CDMA.

John is a better position to talk about the schedule and the numbers, I do not remember the numbers off the top of my head about depreciating the asset. But we are fairly comfortable with the migration schedule, how it will take place and, toward the end, how we will decommission the network. We have made arrangements that we are not ready to disclose yet to dispose of the equipment in the secondary market.

JOHN STANHOPE: I will pick up New Zealand and CDMA depreciation. In this plan there is an acceleration in the first two years and a little bit left in year 3, so 2005/06 and 2006/07 and a little bit left in 2007/08, and then we hope it will be out of the network. That is what we plan at this point in time and that is the schedule, the depreciation schedule.

New Zealand - we tried to work the mobility numbers many times, it just did not meet our criteria on return on investments, so that is the decision we have made not to proceed there.

I think you will find on a stand-alone basis, Justin, TelstraClear was either positive last -- on the following basis, you are right, it was in the next fiscal year.

Our strategy was still to leave open to investigation what we can do to leverage that business in New Zealand. But you ought to understand -- and Sol said this right at the front end of the day -- that we are going to have it more focused. It costs a lot of money to try to service the mass market, to make sure our business customers are well looked after wherever they are in New Zealand, they tend to be on our backbone network in New Zealand anyway, and by focus I also mean focus on the cost base. So that is fundamentally the strategy.

SOL TRUJILLO: If I could make a couple of comments in addition to the CDMA, then one last thought on New Zealand.

In terms of the CDMA, the way to think about it is this is about a two-year transition plan, and Greg said we are going to take and transition this network or shut down this network not tomorrow, not next month, but it is going to be over a period of time and it is going to be very customer-centric in terms of how we do it. Number one, we will not force a customer off until the network is equal to or better than what they have today. Secondly, the service is going to be better in terms of the bandwidth and what they are going to be able to do, we think over a two-year period of time.

Obviously customers are going to have choices. When they come into the stores, when David walks into his Telstra shop, obviously we are going to be encouraging our customers to start moving on or buying the 3G service capabilities as opposed to CDMA. But if a customer wants to buy it tomorrow or this afternoon when they walk into a shop, if they want to buy the CDMA phone, they can. We are not removing choice for the customer.

As we get to the point in time when the network is essentially there and it is ready, we will see a diffusion, in terms of fewer and fewer and fewer customers up to that end, and we will make it as customer friendly as we can, because it really is about customer choice and they are going to get a much better service on that.

Relative to New Zealand, I want to make one other comment. David Thodey and our team in New Zealand are working on what I call some break-out strategies. We are focused on the business segment of the marketplace today. When we have a little bit more time we will have some more conversation in New Zealand to see a regulatory construct that is similar to what we are advocating here in Australia, meaning unbundled local loops, but at their cost, which is okay, because we are going to be able to out-innovate anybody as long as we have access to the network at their cost -- we are not asking anybody to lose money -- but we will go there and we will have the conversation in a very, what I would call investor friendly way and hopefully we can change the environment there, because obviously New Zealand is the exact opposite of Australia in terms of regulatory policy.

QUESTION: Richard Eary ABN Amro. A couple of questions: Looking through the last financials of John's presentation, a lot of the success story longer term is all about leveraging off the revenue base in terms of sustaining the actual cost base. Looking at a couple of the slides, I am a bit confused -- and I do not know whether everyone else is in the audience -- there is a 300 to 350 basis points difference in terms of revenue growth from a status quo scenario to your medium or low case. There is an outline in terms of what the differential is. Can you give us a little bit more colour to try to understand what is the difference between those numbers and what has happened from yesterday to today?

The second question is that, looking at the actual cost base, in terms of the cut-out strategy and the rebound in the margins, you have assumed that margins may go from 45 back to 50 or 52 per cent, which assumes 700 basis points expansion. Within the presentation, you talked about maybe an increase in COGS, the change in revenue mix, which would therefore suggest an overall reduction or improvement in SG&A of maybe 900 basis points.

If you look globally at what has already been announced by other people who have done other similar marketing strategies, that seems excessive, and I am trying to get a better feel in terms of how much cost savings will come from IT, how much will come from head count and give us a little bit more tangible take-aways that we can get to grips with.

JOHN STANHOPE: I am not going to get into the sort of detail of line by line of expense reductions. But to answer the first part of your question, you saw Sol's and my slide that said we are on this trajectory of 1 to 1.5 per cent revenue increase with 5 to 7 per cent costs growth. And the status quo scenario paints a picture that takes that forward out over the five years.

It includes fairly large declines in the PSTN revenue base. It assumes fairly ordinary mobile growth, in terms of ARPUs and therefore tidal revenues, share and so on. It assumes we go along with broadband at a similar level as we are this year. I am not going to get into assumptions, as I said, but we are assuming a fairly significant change in the PSTN decline, an increment in the revenue growth from mobiles, from all the things that we have talked about, integrating services, both mobile and the PSTN will benefit from that, but wireless data will also drive up the ARPUs, we estimate, over that period.

I am not too sure of the confusion. One is status quo, the continuation of what you already see and know, versus what we think is possible.

The cost base is influenced by the spend early on in the years, and we have, of course, when you have a differential -- forget the differential for now. When you have a compound average growth rate of 2 to 5 per cent you are going to pull forward some sort of good, and that is factored into your point that we are holding labour flat and other expenses flat, and we think we can do that just from all the aspects and productivity elements that we can get out of the IT platforms.

I could talk about this for a long time, and so could Greg probably, but there are people sitting in fault centres, sitting in front of house, sitting in front of many screens, trying to cope with many, many systems. Customer experience is bad…..very low productivity from that. So that is where we are targeting all those sorts of things.

DAVID WILSON: David Wilson, JP Morgan. A specific question to John around the redundancies that you have said you have, end-year redundancies plus out-year redundancies, so what is the total redundancies numbers?

JOHN STANHOPE: We already had in plan about $100 million which I talked about on 11 August. We will add about a bit over $100 million more that is factored into our earnings guidance. I also said -- but you probably did not hear me because of the rain -- about $450 million to $500 million in the provision, and that assumes the three-year program.

DAVID WILSON: Does having done the Hutchison 3G joint venture complicate what you are trying to do in 3G on a nationwide basis? Do you envisage a 3G restructure?

The final question: Is there any sort of precedent off-shore that gives you comfort that you can get that sort of uplift in your revenue line from the graded cell strategy?

SOL TRUJILLO: Let me talk about the last part of your question, then the Hutch agreement and all that. Obviously I have experience in the United States, Europe, the Middle East, parts of Africa, northern Asia and Eastern Europe. My experience at Orange most recently was when we started integrating our capabilities and started integrating Orange World, which is applications and initiatives that ride on top of the core wireless service, it was a way of us accelerating growth in our business.

Just as I was taking over Orange, Vodafone was launching Vodafone Live and they had a huge advertising budget associated with it. Vodafone Live was a way for them to grow their ARPU and it was about downloads, it was really a capability to accelerate Downloads.

At Orange we spent our time figuring out ways to make usage simple, non-voice kind of usage on applications and services, things like e-mail and other things that take time if you are doing e-mail or if you are listening to messages or in some cases doing multimedia messaging, photo messaging and a whole lot of services like that. Our strategy was built on making those things simple. That is why you see the one click, one touch, one button, one screen.

If you look at the customers, in terms of taking the smart phone -- and we were the first to roll-out in the world at that point in time -- we took customers that had average ARPU, in some cases a few segments that were moved from £35 a month up £135 a month, because we made things simple and easy to use. If you find value in this and make it easy to use, you grow revenues.

In the case of US West, we had a 50,000 person trial where we did the triple play and the quadruple play, where we integrated video, voice, data and internet and wireless where it was all seamless. Basically for those customers who signed up in the 50,000 person trial, we almost tripled the average monthly revenue from each of those customers and the customer satisfaction which drove churn down to almost zero, because they were so happy with the kind of integrated capabilities.

It does work and it will work here because the one thing about consumer behaviour is we all like things made easier. If it is relevant to me, if you are a worker that spends a lot of time in meetings like today and you are not doing your e-mail and you are travelling home at night and you have to spend 20 minutes in your car, and you get home and you have a wife or a partner or children, they do not want you getting on your e-mail when you get home. There is a lot of pain that happens for anybody that does that - right?

If we at Telstra can make it simple for you, so that while you are driving home you can listen to your e-mails with one click -- put it in your ear, you are not violating the laws -- there is 20 more minutes of revenue and usage that we can get by making it simple. Because right now you can do that but it ain't so simple in terms of being able to use. That is really the key driver.

I have experience doing it, I have seen it work, and now you can go to Telecom Italia, Telefonika, other fixed line operators in Europe and see that they are starting to do some of these things and you are seeing their ARPU growth happening. I believe that is really the key.

When you talk about changing the market here in Australia, that is the way we change the market, because now as a customer I am doing business with you because of what you are giving me, as opposed to just the price. Price is important but it is not the only variable. But it looks to me, when I have assessed over the last three to three and a half months in Australia, it looks like price is the only variable that all the players seem to focus on.

GREG WINN: Regarding Hutch, it does not complicate our agreement, there are no problems. We have a good agreement with Hutch, a great relationship in our partnership and it continues, there is no interference.

DAVID WILSON: Having done the deal, it does not complicate what you plan to do?

GREG WINN: No.

PATRICK RUSSELL: Patrick Russell from Merrill Lynch. Just a couple of things. Firstly, on the PSTN business, have you assumed any further rebalancing in the revenue numbers going forward, and also just any thoughts on the growth of the VOIP portal, things like SKYPE, and you how you see that technology impacting the business longer term?

The other issue is just on the labour, looking to take 10,000 people out is a big number. It is going to obviously have some morale issues as well as obviously issues associated with restructuring the business, in terms of the outsourcing impact. I just wanted to get an idea how you are going to manage that and where largely are these people going to come from? I know that you have 10,000-odd people in operator and call centre services, a lot of people in field service and obviously management; where are they going to come from and how are you going to manage the social upheaval inside the organisation?

Finally, normally associated with such a radical change in business strategy there would be organisational change in terms of how the management has worked or is working. We have seen an influx of new management come in from offshore, and I kind of get the impression that the company has bolted on a separate management infrastructure over an existing one. I am just wondering how you are going to sort of reset the lines, and will we see a fresh organisational structure appear from this new strategy?

SOL TRUJILLO: Okay, you have asked a lot here, so let me try to remember it all and then try to address it all. Number 1, in terms of the revenues --

PATRICK RUSSELL: The rebalancing issue on PSTN.

SOL TRUJILLO: In terms of the rebalancing issues, we are not talking about any kind of rebalancing **per se** because that is not at the centrepoint of our strategy. The centrepoint of our strategy is really about how we think about pricing plans, whether we start new types of pricing plans, whether we have subscription pricing and other things that can affect this kind of mindset relative to whether I want to stay on a usage based kind of pricing plan or do I want some sort of certainty in terms of what I get and how attractive is it? It is about how we think about integration and simplicity of services that are seamless between wireless and wire line, that you will see us introduce over the coming periods of time. It is also about these features of services that get enhanced or added on to the core capabilities.

But as you saw from the charts that we showed earlier, we have a pretty aggressive assumption relative to PSTN revenue decline and some of it will be driven by VOIP and the SKYPE type players as well as some of the others, the Vonage type players that have a different way of thinking about Voice Over IP. They are all factors but they are not really going to drive our strategy in terms of what we do.

We will look at Voice Over broadband as a competitive response and creating attractive pricing and packaging around that, and we will do some other things that we are not going to talk about today. But in terms of revenue picture on PSTN, it is declining, it is going to happen, the question is at a double digit rate or a half double digit rate kind of scenario, relative to the environment and cost and what is the mix of people, et cetera, et cetera.

I said this before: We have full-time employees, we have part-time employees and we have contract employees. It is going to be a mix of all of them that will be affected. Primarily I think first it will be more on the contract side of employees than it will be on the full-time kind of employees.

Some of what we have in place is a variablisation of some of our costs and that is associated with the part-time and that is associated with the contract, but obviously we will preference our own people inside the business, because that is a principle I believe in and I think that is a principle all of our senior leadership team believes in. But we are going to be very pragmatic in terms of what, where, when and all of that.

How does it relate to morale? Obviously, so far, all the employee meetings I have had, I have talked about we had to lean down the cost structure of the business. I think that when I said that when I first came, it has been in a lot of news stories and other reports that all our employees get to see, and I think our employees know that that needs to happen. I think almost universally, everywhere that I have been it is understood. What our employees want us to do is to be clear, to be quick, to be decisive and to get on with it so that they can get on with their lives.

I will share an e-mail I got this past weekend from an employee leaving the business as part of one of our initiatives that we have already announced. This employee sent me an e-mail saying: "Sol, I am going to be leaving. I have worked at Telstra for six years. I have enjoyed my stay here at Telstra and now I am going to be affected by one of the decisions that you have made, but I think it is the right thing to do. And I want to wish you the best because Telstra is a company I have really enjoyed working for." It has just got to be done, I think everybody knows that.

In terms of your comment about a bolt-on management team, I hope you saw today that there are no bolt-ons here; we are an integrated team. This team has been working hard together. You can take Bruce Akhurst or David Thodey or Justin Milne or David Moffatt or Deena Shiff off to the side and say, what about those Americans versus some of those others, and some of the other people we brought in from Europe and that all that? The answer is, I am a team builder, I believe in teams and the only way you get things done is through teams and if people do not like being part of a team then they will not be part of that team.

We have spent a lot of time as a leadership team aligning ourselves around strategy and also aligning ourselves around roles and responsibilities, and also then finally aligning ourselves on what's going to be required to operate and deploy the strategy that we have been talking about. I hope you saw it today, that everybody is ready. Bruce, after the break, kind of said to me, "We got to get going, because it is now time not just to talk about it but to really execute."

QUESTION: Thanks, Sol. Andrew Hines from Morgan Stanley. Sol, first of all, let me just say congratulations on what I think is a great vision for the company, and I think if you can execute this well, then it's going to great for Telstra and for the country over the next five years. I must say, however, I'm a little sceptical on your end point financials. It looks to me like you're defying your own law of gravity in some ways, in terms of your margins. Your margin today is world's best, which means you're either charging more than your peer group globally for services, or your cost structure is that much better than your global peers. What gives you the confidence that, five years from now, the gains you've made in your cost structure, if you implement this well, aren't going to be given up to the consumer in pricing and we don't end up with your margins at 42 per cent, rather than 52 per cent? That's, kind of, a big picture question. I've got another question for David Thodey just on execution. One of the things we hear from other carriers who are going down the next generation network path is talking about how to integrate the customers into that experience. David, have you done any work with your big corporate customers on are they ready for this yet? Are they ready, in the next two to three years, to turn off their systems to integrate into an all IP core? You know, what sort of changes have to happen at their end to be able to implement what you're doing?

SOL TRUJILLO: Okay, let me take the first part and then, David, I'll turn it over to you. In terms of, you know, the discussion about the business model, you're really asking a question about the business model, at least the way I hear your question. I want to be clear; the way that you start thinking about 3G, HSPDA going forward the way you think about next generation network going forward, you're going to dramatically reduce the cost, the incremental cost to serve your customer. On top of that, then, the incremental cost to bring to market the applications and services is going to be dramatically different. It's basically changing from a physical, you know where you have lots of, you know, cost of goods sold, if you will, associated with every product and every service, to one where you're moving into, basically, a software-enabled kind of environment, which is what really allows you to drive your margins, so that the margins per unit, if you will, go up.

Now, how does that relate to pricing to the customer? How it relates to the pricing of the customer is how we think about the segment and what the utility or the value is on that application or service. There is a lot of modelling that has happened and will happen today and tomorrow, in terms of how you price that. If I help a customer take, you know, $100 million of costs out of their system by one of the applications or services that we have and I price it at $50,000 or $50 million, depending upon the value of the benefit, they're going to be willing to pay it if it gets them the outcome. That's what value based pricing is really about, as opposed to cost based pricing, which is kind of the mode that everybody is in. Everybody is trying to find that lowest point. Telstra has had the highest margins, competitors are willing to live with lower margins, so you keep on getting into this spiral. What I want all of our competitors to understand is that we're going to have a much lower cost platform than they're going to have. That is a management thing, that has nothing to do with regulation, that has nothing to do with copper loop, it has everything to do with how you're investing to take costs out of the business. That's what we're going to be driving here, so that everybody understands that when they compete with Telstra going forward, it's going to be a different game. It has nothing to do with what regulators worry about.

But back to the customer. It is about the applications and services. It's about the way that you generate them, and the margins are going to be dramatically different. Therefore, the outcomes and the numbers that you saw are that way and we will be able to sustain them because we've seen that in the mobile world. I saw it in the mobile world in Europe, where, if you go to the UK there is no more competitively intense market than in the UK, and we were able to sustain those margins. We took our EBIT and margins up, while I was there, from 31 per cent, up to 38, 39 per cent EBIT on margins, in a market where you have six or eight infrastructure players, not resellers, infrastructure players, and you can walk down any street there and you'll find the value propositions that everybody had to move to, Vodafone, Orange, T Mobile, 02 and all the others. So I really do think that this is possible because we have a strategy.

Now, the other part of it is simply it's about the network investments that we're going to be making. If we sustain the platforms that we have today, with all the redundancies of networks and systems that we have today, you're right, it doesn't make sense, nobody else is there. The final point I'd say, when you say, "Well nobody is really talking about those kinds of margins," nobody is really integrating their wired and wireless business the way that we're talking about, because everybody has separate, stand-alone structures. We're going to make sure that we can take advantage of costs wherever we can. Okay. David.

DAVID THODEY: Yes, it's a good question. The short answer to your question is yes, but more so we've already done it. I mean, at Woolworths we've just rolled out IP to all the stores and it is a big job because the whole dynamics of the way the network runs and the interaction with the applications is quite different. Then we've just done IP telephony at Norwest Park, where, you know, Roger has just taken the head office out to. We've had to do a lot of work because putting IP telephony in is difficult. Suddenly you've got a whole new dynamic going on in the business, from operational issues of running PINs etcetera. So, yes, you've got to plan it, but the value, or in fact more than the value, the need for the customers to do it is compelling. Delivering the new applications in terms of servicing their customers is driving them that way. So I think that creates opportunity for us, to be honest.

QUESTION: I mean, I guess the point of the question was you can't really turn off the old networks until your very last customer has converted over, so there is always going to be the recalcitrant customer who says, "I'm not ready to turn over yet." What happens in that situation?

DAVID THODEY: Yes, well, that's - I think if you have seen a chart that Greg put up, that we will support things like ATM and Frame through the IP core, because we realise that we're going to have to, you know, migrate people, and also some people stay on ICM back up, but we'll try and move them through and give them a good redundant network as we go forward. But they're real issues and we're going to work through them.

SOL TRUJILLO: We're going to take these last three questions and then we're going to close off this part of the meeting and then we'll move into the media session. Okay.

QUESTION: Ian Martin from ABN AMRO. Question on Sensis. I've been trying to grapple with this question about whether the growth prospects for Sensis and the prospects and value, and so on, are better because Sensis is part of Telstra, or whether it would be better off as a stand-alone company. I think the answer is that, particularly when the growth is coming through from mobile-based search of the internet and so on, that it probably should be part of Telstra. But it wasn't obvious where the revenue synergies were, for instance, common marketing and so on. There is some evidence, I think from presentation of cost synergies, particularly on the IT side, but when I look at your capital spend it is running at - although it seems low at 5 to 6 per cent, that's twice what the peers are. There are some obvious differences in the strategy you talked about where you're, for instance, running lots of different brands, therefore lots of different customer access points, which must be confusing and costly. You're going down this multiplatform route, which I can understand, but is complex, and your customer segmentation, if I've got it right, into premium, silver and bronze seems at odds with the needs based segmentation that Bill Stewart was talking about. So where are the benefits?

BILL STEWART: It's not about IT rationalisation and Greg running the IT system for Sensis, that's not where the principal benefit is, although there will be benefit through Telstra procurement processes. So we'll be definitely using the procurement processes to drive our costs down. But that's just one element. The real guts of it is getting the one and a half million customers per month from BigPond and the millions of customers from Telstra.com that we're now getting. And also having, on the screen when eight million Telstra customers turn on their phone, there is Sensis. I go to my customers now and I say, "There are 8 million customers there that can find you just by going like that." They don't have to scroll through menus and screens and all the rest of it, there it is. We've shown that over the last couple of months with

BigPond. That's why we've gone from 100,000 a month to 1.4 million a month. So it's just phenomenal traffic. It's really getting into the on-line area. It's absolutely consistent with what Sol's talking about in terms of - - -

QUESTION: That's driving a lift in advertising rates?

BILL STEWART: A lift in advertising rates?

QUESTION: How is that driving the kind of revenues you're getting?

BILL STEWART: Because we're providing to the advertiser a much broader audience, so we'll have other charging models, not just, you know, pay to appear, but it will be pay for performance, you know, pay per lead, pay per sale, all these sorts of things are going to drive it. We're seeing it already.

QUESTION: Tim Smealie from Citicorp. I think we can probably safely assume that Optus and AAPT and the rest of your competitors are already on their way down to Graham Samuels' office to get access to the fibre to the node. Can you explain how you come up with the commercial justification for making the investment, given you've got uncertainty on last mile access, and clearly there will be uncertainty on the second last mile access. That's my first question. Secondly, you appear to have some fairly bullish expectations in terms of mobile revenue growth. Can you give us some clarity on what you think the implications are for mobile margins to deliver that sort of performance?

SOL TRUJILLO: Okay. Relative to the first part of your question, in terms of all these folks traipsing down to the regulator's office. I thought they were already there. As a matter of fact, isn't the regulator housed in one of our competitor's buildings with a name on it or something? So, I mean, I think that, you know, I don't blame them for asking for subsidies. I mean, if I could get Telstra subsided somehow, that would be good for our shareholders, and if you can get away with asking for subsidies, more power to you. But that's not what we should accept or allow, to the extent that we can affect it. In the case of putting fibre to the node or fibre to the premise, obviously, as I said before one of the key requirements for us is a safe harbour on new investment. If the regulator or the minister or somebody in government says, "If you invest new, you got to share it with all your competitors and you've got to take your shareholder wealth that they're risking in terms of the capital and give it to some other shareholder," we won't do it.

QUESTION: Isn't that effectively what they're saying now, though?

SOL TRUJILLO: I don't know what they're saying until they make a decision. There is a lot of debate, there is a lot of advocacy, but hopefully there is a principle here that says that there is a due process, there is a fair hearing, and as a regulator, as with others, you got to listen to the evidence and you've got to look at the evidence in whole. I mean, that principle does work in the rest of the world, hopefully it will work here. I've not been through one of the major decisions, but I'm hopeful that good wisdom, good judgment will prevail.

QUESTION: Just on the mobile revenue growth?

SOL TRUJILLO: On the mobile revenue growth, that's part of the model that we're still working hard, I mean now literally we have just finished some of the work in terms of the agreements on the roll out of the network and then some of the applications development work that we still have to launch. In terms of the margins, I think that we're going to be able to accelerate some of the margins that exist today, but also the revenue growth is going to be tied to some of these applications segment by segment by segment. Bill and I have experienced having done that at Orange, and Bill already has ideas about things that we could be doing. He and David Moffat, in particular, are working closely. We also have, in the business segment - we don't need to invent some of stuff that this company in the US has done, called Nextel, relative to push to talk. I think all of you have seen the great market cap that's associated with this company called Nextel, because it's not about just their technology associated with push to talk. They grew their business based upon specific applications. If you're in construction and you want to manage all your sites and all the workers and all the people and you have these push to talk walkie-talkie phones, that's a great application. If you're in another industry and you have people out in the field, you know whether you're - in the US they call them milkmen, right, people delivering milk to people's homes, and trying to track the people as they work through the day and work in their load and their schedule and all that. I was on the board of Pepsi Cola. When people talk about all of the field distribution, there is lots of applications out there that are not about, you know, just getting air time, they're about the applications that are unique to an industry. We don't have to invent all of that. We can go take some of the applications, bring them here and start focusing on the various segments that are in the market. That's part of what we're going to be doing to start getting some of the revenue growth, as opposed to just assuming that people call more every day. Then, on the other side, is just these whole series of now non-voice applications in a 3G environment; the video calling, the video messaging and some of the other applications that are now starting to take off in other parts of the world.

QUESTION: Thanks very much.

QUESTION: Mark McDonnell from BBY. I have two questions. The first one is in relation to your retail market share. In your presentations you've made some fairly ambitious forecasts about turning around the retail erosion and seeing that grow from, sort of, low to mid 40s, currently, to mid 50s to 60 in some key product areas. With the extensive market research you're now doing, I'm wondering if you're already seeing shifts in things like customer satisfaction with your service delivery, and to what extent do you believe there is a connection between a shift in those kinds of marketing metrics, through to improvements in market share and recapturing of lost customers? Really, the key question is, has that begun, or is that work still to become evident in subsequent quarters? The second question relates to IT services. A number of your competitors, particularly the large market cap competitors, Singtel and Telecom NZ have made a number of acquisitions recently of IT companies. I'm wondering, given your acquisition of KAZ not so long ago, where the provision of IT services fit. Most of the focus in today's presentation about IT was internally focused when references to IT were made, to how it was going to be a new factory at Telstra. What I'm hearing from your competitors is a lot more about how they're going to take IT services and deliver that through to customers. I didn't hear much of that today, here.

SOL TRUJILLO: Okay. Relative to the first part of your question on the customer experience and are we seeing changes yet, I would say, basically, no, not yet. It's going to be another quarter or two before we really start effecting what I would call noticeable change in terms of some of the initiatives that David Moffat and David Thodey, and Justin in particular, and Doug Campbell have launched within the operations. So it takes time. As you saw from Bill Stewart, we're going to be re-architecting this whole go-to-market view. As you saw from Greg, we're re-architecting, essentially, the back, the hidden side of the company that customers don't see other than they feel. So it's going to be a bit yet before we start seeing a turn up. However, that doesn't mean that we're not launching several initiatives literally last week, last month, next week, next month in terms of the business. So we're not waiting for the big fix because there is other things that we could be doing now around managing productivity, getting greater productivity, other things we can do around how we're resourcing some of our customer touch points. Again, the team is working on that. Relative to the IT side, obviously IT is very important for us because we handle so much volume. This is a really big company that handles big volumes, not only at retail, but also at wholesale. So the more that we can manage those volumes, essentially without people touching it, and the more that we can take the number of systems that orders and calls have to go through, the more costs that we can take out of the business. That's what we're doing there. Now, in the case of KAZ, obviously we're helping customers, on their premise, integrate some of the services and capabilities that they're bringing to bear within their business. So we're trying to make it easier and simpler for them to manage. That has been a decision that was made, obviously before I got here, as part of the portfolio of how we're serving our customers, and it continues to be, as you heard David talk about it. He didn't spend a lot of time on it because today we're trying to communicate what's new. What's new is about this whole IP infrastructure, but, more importantly, not so much about the carriage, but really about the services and applications that are going to enable us in terms of our large business, government, SME marketplace to truly differentiate over time. Okay. Thank you.

That is now the end, at least of the financial community segment of this meeting today. I want to thank all of you again for your patience and endurance, but we had a lot to share. We didn't take a break, hopefully you had a chance to do whatever you needed to do while we were talking. I won't recap, capsulate anything other than to say we're excited about our business, we're aligned as a team, we're focused as a team and we know what we've got to do. If anything that you take away, again, our business is going to be driven by our customers, our strategies are going to be executed around segments of our customers, and the people within our business are going to be enabled to do what we're going to ask them to do, because otherwise everything falls apart. So those of you that asked questions about our people and the training and the morale and all that, those are very important questions, just like the technology and the other things. You've got an experienced team here, we've got a very diverse team here and we're going to go out now and begin executing. So thank you for joining us and we'll be talking to you. We're going to take a 10-minute break and then we'll do the media segment next. Thank you.