'yes' OPTUS

15/11/06

13 November 2006

Mr John Bahtsevanoglou
Australian Competition and Consumer Commission
360 Elizabeth Street
Melbourne VIC 3000
By facsimile: (03) 9663 3699

Dear John

Public version

Supplementary submission in respect of Telstra PSTN OTA & LCS Undertaking

This letter provides some additional comments from Optus in respect of Telstra's access undertaking for PSTN OTA and LCS services. In particular, it addresses information recently submitted by Telstra in respect of the ACCC's draft decision.

Telstra's comments on forward looking technology

Telstra's submissions of 11 September and 20 October seek to address arguments put forward by Optus and others that since the PIE II model does no take account of Telstra's NGN plans it is not consistent with forward looking best-in-use technology principles.

Telstra's position can be summarised as follows;

a) In building a theoretical model to meet the TSLRIC requirements Telstra has to assume the best in-use technology available "as at midnight on 1 July 2006".

b) Since NGN is an unproven technology and is not yet deployed in Australia nor elsewhere in the world it cannot be considered best in-use technology; and

c) Whilst Telstra has plans to upgrade to an NGN technology this will not happen in the timeframe of the undertaking; and

Optus contests each of the above points.

It is wrong for Telstra to claim that it has modelled its network at midnight on 1 July 2006. In fact the current undertaking is based on a roll-forward of the output from the PIE II model used to support previous undertakings submitted by Telstra. In reality PIE II is based on a network architecture that was current in 2000. The design assumptions made in 2000 have not changed, only the data inputs have been updated through various versions of the model. In this respect Optus notes the following statement in Telstra's submission in support of its undertakings. [1]

[1] Telstra submission 22 March 2006, para 44 page 13

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[redacted]

" The PIE II model was initially built to cover a four year period from 2000/01 to 2004/05. In order to estimate the cost of the IEN in 2006/07 and 2007/08 the following key parameters have been updated in the PIE II model:

(a) physical volumes;
(b) Weighted Average Cost of Capital; and
(c) changes in the replacement cost of assets. "

Telstra clearly has not modelled a network for any of the years for which the undertaking applies to.

Even had Telstra designed the network at "midnight on 1 July 2006, Optus does not accept that it is reasonable for Telstra to simply pick a date and model a network based on technology available only at that point in time. For the purpose of an undertaking which runs for 2 years, as a minimum it would be reasonable for Telstra to reflect cost savings it is likely to realise during that period. Such cost savings could result from the deployment of new technology, systems changes, staff reductions and improvements in operational processes. That is, Telstra's model should reflect a measure costs not at a single point in time but over a period.

In its investor briefing of November 2005, Telstra announced it plans to re-base the costs of the company. In particular, Telstra announced that it planned to:

a) Undertake a major upgrade of its network with the implementation of an IP technology in its core network;

b) Reduce its workforce by 10,000 to 12,000;

c) Undertake a major overhaul of its existing systems with the removal of many legacy systems.

Each of the above initiatives is being undertaken to drive reductions in Telstra's cost base. In its October 2006 Investor briefing, Telstra announced that its initiatives are well on track and are already delivering cost benefits.

On Telstra's planned NGN roll-out, Gregg Winn Telstra's Chief Operating Officer noted that;

The intent of our wireline transformation is to create a fast, scalable platform and an industrial strength platform from which we can deliver high-value services with extraordinary reliability and low unit costs. The heart of this new platform is our new single IP/MPLS core which replaces our current dual core multi-architecture infrastructure. It is faster than it was before: 77 times the speed. We are running at 92 terabytes per second instead of 1.2. It is cheaper, about 40 to 60 per cent cheaper lower costs per quart.

It is simpler: we have 28 core routers instead of 52 legacy routers, and it has better redundancy, scalability and coverage than any of our competitors' core networks.

The program is ahead of schedule. We have already completed building all 18 sites across eight cities well ahead of our planned time line. We will have full migration of all of traffic completed by mid-year 2007.[2]

On its staff reduction programme, Sol Trujillo Telstra's Chief Executive Officer notes that;

You heard us talk in August through the end of June we had reduced our full-time equivalence by 3,800 plus, FTEs. Right now, through the end of August, adding July and August, which we will disclose as new numbers in John's presentation, we're now around 5,000 FTEs that we have taken out of the business.[3]

On Telstra's IT implementation plans, Gregg Winn noted that;

Another major part of the IT environment is our data centres, where we have recently negotiated a major new contract with IBM. This contract will deliver almost $300 million in savings over the next six years and has the flexibility we need to accommodate the changes to our IT infrastructure as we drive it through the transformation. The project is on schedule with all key milestones met and is on track to be completed by December 1 of this year.[4]

The above quotes clearly indicate that Telstra's transformation plans are already delivering key savings in the very first period of its undertaking. It would be entirely reasonable and appropriate for these to be taken into account in its PSTN costing. So that there can be no claim that Optus has selectively quoted Telstra, we have attached the relevant transcripts from Telstra's Analyst briefing at its 2006 Investor Day.

Optus does not accept Telstra's contention that NGN is an unproven technology. NGN is a term that has broad application and captures many technologies at different layers within the network architecture. For the carriage of voice traffic, however, it usually implies the upgrade of the core network to IP technology and the deployment of softswitches to replace the existing Time Division Multiplexing (TDM) based circuit switches. It is misleading for Telstra to claim that NGN technology is not mature and proven, since it is being deployed on a large scale around the world. Whilst the implementation of softswitch technology is a more recent development, many carriers and ISPs have already migrated their core backbone technology to IP to realise lower unit costs of voice carriage over their backbone network whilst maintaining a front-end TDM interface on the access network (i.e. transparent to the PSTN end-users).

In January 2004 Verizon, one of the largest telecommunication companies in the US, announced its intentions to deploy softswitch technology in its wireline network so building upon its earlier adoption of IP technology:

Verizon also plans to begin replacing many of its traditional telecom switches with Nortel's VoIP equipment in its local and long-distance voice wireline networks later this year. As deployment gets under way, the company will offer one of the industry's most comprehensive suites of VoIP and multimedia services. The company expects that its next-generation network will be the nation's largest

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[2] Transcript of Analyst Briefing at the Telstra Investor Day, page 18

[3] ibid, page 3

[4] ibid, page 20

converged network, capable of simultaneously handling voice, data and video transmissions.

Verizon began deploying similar technology in its network in 1999, with VoIP gateway switches for some long-distance companies. In 2002, Verizon began installing similar technology in parts of the company's inter-city network and a year later deployed the technology in segments of the company's long-distance network. [5]

In the UK, BT announced its plans to deploy NGN architecture in June 2004. BT indicated that migration of customers would commence in 2006 with the majority completed by 2008.

An early deliverable of this transformation is the first phase of the migration of services from the existing UK public switched telephone network (PSTN) to a multi-service internet protocol (IP) based network which will carry both voice and data services. As a precursor to large scale migration of voice and other PSTN based services from 2006, the first stage will involve the bypass of the core PSTN network link between two major network nodes at Cambridge and Woolwich. An extension is planned later to Faraday exchange in London.*[6]

France Telecom announced that it had commenced NGN implementation in 2004.[7]

It is clear, therefore, that even taking Telstra's restrictive approach TSLRIC cost modelling, Optus submits that at "midnight on 1 July 2006" best in-use technology should incorporate NGN.

Finally on this matter, Optus notes that Telstra has misrepresented the position on NGN. Optus accepts that NGN technology will not fully replace all components of the PSTN circuit switched network. It is acknowledged that parts of the local loop network may not be updated. Nevertheless, key components of the PSTN are capable of and are being replaced with lower cost technology. Implementation of such changes is already advanced around the world and it would be reasonable to anticipate some of those changes in Telstra's cost model

Other matters raised in Telstra's submissions of 20 October

In response to complaints that the PIE II model could not be run Telstra notes that (paragraph 31) Telstra indicates that:

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[5] http://investor.verizon.com/news/view.aspx?NewsID=481 .

[6] http://www.btplc.com/News/Articles/ShowArticle.cfm?ArticleID=500408a0-a768-46e7-9dec-ef4a199be68e,.

[7]http://www.francetelecom.com/en/financials/investors/presentations/other/att00002433/ITN_Mis._06_01_19_final_1_by_1.pdf -

Telstra has made this model widely available to interested parties and has provided extensive documentation on its features. In order to further assist the Commission and others in understanding how the adjustments to volumes and prices affect the unit prices, Telstra is also providing an additional spreadsheet.

In response, Optus notes that no additional spreadsheet has been provided by Telstra. Further, the documentation Telstra refers to only provides an overview of its approach to costing the PSTN and the input assumptions used. It does not in anyway provide even a very sophisticated user with the ability to understand how the model works.

Historic costs

At paragraph 105, of its submission Telstra challenges the fact that the ACCC eliminated certain costs from Telstra's RAF accounts to produce a unit cost for PSTN OTA on a historic cost basis. In particular, Telstra challenges the removal of **[c-i-c]** worth of product and customer expenses. Optus submits that for an established commodity service such as PSTN OTA there should be no product or wholesale customer costs. It is entirely appropriate that these are eliminated.

Proposed pricing is not a bundle

At paragraph 123, Telstra states that it "rejects the notion that the proposed pricing framework represents a bundle or a 'package'".

This statement is not consistent with Telstra's commercial position. **[c-i-c]**

Two Part Tariff

Telstra implies at paragraph 169 that Optus supports its two part tariff approach for PSTN OTA. Optus wishes to confirm that it does not support Telstra's approach.

Other matters

In December 2005, Telstra submitted an undertaking for the ULLS service which uses the same or fundamentally similar PIE II model to support its proposed price for the ULLS.

[c-i-c]

Telstra's claims on ULLS should not be accepted as it would be totally unreasonable to include any proportion of IEN costs in ULLS prices. If, however, Telstra's claims are accepted then PSTN OTA prices should be adjusted downwards.

Commercially agreed prices

[c-i-c]

Yours sincerely

Andrew Sheridan
General Manager
Interconnect & Economic Regulation

Attachment 1

Transcripts Telstra Analyst Briefing

10 October 2006

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript of Analyst Briefing at the Telstra Investor Day

In accordance with the listing rules, I attach a copy of the transcript of the Analyst Briefing at Telstra's Investor Day 6 October 2006, for release to the market.

Yours sincerely

Douglas Gration
Company Secretary

TELSTRA INVESTOR BRIEFING
Analyst Briefing
6th OCTOBER 2006

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DAVID ANDERSON: Good morning, everyone, and welcome to this Investor Day. My name's David Anderson, I'm director investor relations at Telstra. Before I hand over to Sol I want to cover a number of housekeeping issues. There's a lot of material for us to cover today and the duration of the briefing will be approximately five hours. Due to the amount of material we have to cover, we'll be not stopping for a break. However refreshments and a bit later on lunch will be served and be available out in the display area where you are welcome to walk out, get what you need and come back into the briefing. We'd like you all to switch your phone on mute or either turn it off. You'll get an opportunity to answer questions towards the end of the briefing. Before we start, I need to refer you to the disclaimer which was up on the screen just before we started and just shortly we've just got a lot of material we have to lodge with the ASX, you'll be receiving your packs very, very shortly so with that I'll hand over to Sol.

SOL TRUJILLO: Good morning, everyone. I am here today really proudly to talk about our business and also to share with you one of the major milestone accomplishments that we've just announced this morning. But as we think about the day, and I'm going to try and get us on to a pace here, there's been a lot that has been written about this company, there's a lot that we said back in November of last year and there's a lot that's been happening so what I want to do is quickly restate our strategy that we shared with you last year because I want to be absolutely clear. The strategy that I communicated last year is still the strategy this year and it will be the strategy next year because we are clear in terms of what's needed in the market place.

I'm going to give you an update relative to what's happened in the business. We're going to give you a little bit of education in terms of some of the technologies and some of the nuances of what we're doing in terms of the business. We're going to demonstrate a little bit about what we've announced this morning as well as some of the other capabilities that we're delivering in the business and then John and I both will give you an indication of some reviewing of our targets that we communicated, the long-term targets from last year.

As we think about the transformation then, it's important for me to just be absolutely clear. Strategically we're clear, operationally we're moving and executing. Witness the first pillar that we've raised today which is a new, competitively advantaged wireless network, broadband. Culturally I think it's pretty clear to all of you, I hope by now, that the competitive nature of Telstra has now changed and we're aggressive, we're going to be tough and we're going to win in the market place. And financially, obviously, we're on a 5-year turn around plan and the good news is John will have some interesting information to share with you today.

Now the big - today is, as I think about the day, it really is about Australia and it's about Australia in terms of how the telco landscape is really going to change because today we have changed the wireless game absolutely and we've changed it in a big way with some big moves and also some significant investment.

But the key here is that we're doing this to advantage ourselves by delivering better capabilities to our customers, by enhancing the opportunity to improve returns for our shareholders and obviously to make it difficult in the sense of in front of a customer for our competitors. And finally, to get our employees excited about the fact that Telstra's now on the move and it's in the market and it's happening and it's in front of our customers. So competitive advantage is really what we are striving for because in our culture here at Telstra, winning does matter.

Now 2006 obviously we have been busy. Now most people, if you were at the launch this morning of our 3G HSDPA 850 network you would have heard from Carl-Henric Svanberg the CEO of Ericsson, the fact that Telstra has built this network faster than anybody has ever done in the history of telecommunications and we've done it with a bigger footprint than anybody has ever done in a 3G network. So we've been busy.

So we have a lot happening in terms of our business but the first and fore most point that I really am proud of in the last year is the fact that we have enhanced and improved our customer experience. Our customer service levels have the highest levels in the history of Telstra. Our service experience has improved, our brand attribution as we look at the research that we analyse in terms of running the business, has improved dramatically and also our customers are now buying more of more products and obviously we're meeting broadband demand in new ways and in higher volumes than we have ever in the history of this company.

And the nice thing is when people ask me about whose opinion is most important to you, what polls do you look at it, it's the customer and the customers are now voting with their pocket books, which is critical to us as we think about running the business. How well they're doing it, by buying more. They're buying more and more of the new products, new services, new capabilities that we're delivering, we're increasing our broadband, mobile and market shares and we're driving now record volumes and you'll hear some of that story today from both Justin and David and Deena and David in terms of all the things that are happening in the front end of our business.

An item that we talked about last year was PSTN. Now PSTN, if you want to say OK now what is the big negative about Telstra and most PTTs is this notion of PSTN and what's happening with the decline of revenues. The big challenge for us was could we in effect slow down that decline and you're going to hear more about that today. The punchline is yes, we are slowing it and we have aggressive plans in that space and we've been implementing and working hard over the last three or four months.

Significant growth in online revenue. Part of the economic model of this company going forward is about this whole notion of the digital media and how we think about digital services and what the economics of that business looks like and John will talk some more about that later.

If you look at 3G I told you back in August that the key point for us is we look at the mobile space, the future really is about 3G and now today it's pretty obvious as to why. It's because customers are going to be able to do more, use more and ultimately pay us more because we're going to be able to disintermediate a lot of other costs they have in their lives or in their businesses.

So as you look at our performance to date, the 3G numbers continue to grow and the ARPU continues to hold in terms of the differential between 3G and 2G and finally again David will cover some big numbers relative to how churn is reducing in terms of our business and that is perhaps one of the most significant metrics we're looking at.

In terms of innovation, if it's not clear today, I don't think it will be ever clear to anybody in this room that we are looking to lead Australia and perhaps in some cases lead the world in terms of how we're focused on our customers' needs and innovating around what we know what our customers want. So when we talk about essentially a one-click, one-button, one-touch world, we're delivering. It's no longer just words, it's no longer just stuff on a piece of paper, we're making it real and it really is reflective of the innovation we have here at Telstra.

We're fully integrating our business. We are now an integrated business. No more silos, no more slowness in terms of decision making because we've changed the business and we've introduced 25 unique products and services in the last year and obviously this is all part of our Next G delivery.

In order to facilitate that, we've built a lab and most of you are now familiar with our integration lab. It's enabling us to work with the world-class partners that we have in our business to make things happen even faster and to help them innovate even faster around what we see as our business needs.

We focused on this idea of reducing complexity in the business and obviously we had a lot of complexity and still have complexity in our business but we're simplifying, we're simplifying our pricing, we're reducing the number of platforms that we have in our business. We're reducing the number of IT systems, the big chunk of those is going to come in years two, three and four of our transformation but we're already working on reducing and capping a lot of those.

We've stopped hundreds of legacy projects, things that Telstra had going that they used to do that were part of the business as usual business and the answer is those things don't exist anymore and obviously we've made some strategic choices around vendors like Ericsson that you saw today. When you make a strategic choice and you can be decisive and you can move quickly, it has big payback in terms of delivery in the market place.

In terms of cost reduction, we're very focused on cost reduction. You heard us talk in August through the end of June we had reduced our full-time equivalence by 3,800 plus, FTEs. Right now, through the end of August, adding July and August, which we will disclose as new numbers in John's presentation, we're now around 6,000 FTEs that we have taken out of the business. So for those that have had question about can they do it, can they hit their numbers, all of that, these are all proof points, they're all real and it's all tangible and it will show up ultimately in the income statement of this business.

In terms of the 3G office sites, or locations, you know, we've increased the number of locations that we're delivering services around but we're doing it very, very cost effectively. In terms of office sites and buildings and other costs in our business, we're reducing those and the most important metric for me, as I look at the volumes in our business, is how productive are we. Are we improving productivity and again today, you'll hear from Greg some pretty impressive numbers about how we're doing there.

Obviously the last piece that I wanted to talk about from last year was the business portfolio. Many people ask questions about how we thought about the array of assets that we had. Obviously since last year we've acquired our Chinese business called SouFun, which is a high growth business and it's on the same operating platform as what Bruce Akhurst will talk about in terms of our Sensis business. We did it in a transaction where we freed up cash by divesting a non-core asset in order to help pay for most of that new business.

We've done some consolidation in Hong Kong where we've made CSL the number one market share player in the business and obviously probably the most profitable player in the wireless business there in Hong Kong because we do command a premium for a premium set of capabilities in the business.

We focused Telstra Clear, Kaz and Reach in terms of what their scope and purpose is within the business and obviously we divested AAS.

In addition to that, inside the core business we created real focus around the small medium enterprise portion of the market by creating this unit that we now call Telstra Business. So we've been focused in terms of execution.

Last year if you were here you will remember this map, this map, this puzzle map of Australia. In terms of the key areas that I wanted to focus on, in terms of how we think about the core strategy of our company and so a lot has been covered, a lot is done and every one of these pieces that you see coming up here on the slides, we are addressing and we're working on and executing in terms of delivery on all elements.

So when you think about it, in terms of summary of our strategy, it really is about understanding our customer needs better than anyone else and we're doing that and Bill Stewart and David and Deena and David will talk some more about that and it is about building the best delivery networks capability through our one-factory notion so that it enables us to move with speed and real precision and also now reflected as you look at what we're doing today. Best content, best services on the best delivery platforms. And finally, as John Stanhope will talk a little bit later about, we really are building a new economic model for this business and for all of us, our shareholders, that's very important.

But remember this notion of one. The idea of our vision that says we have a one-click, one-touch, one-button, one-screen, one-step solutions for our customers that no-one else has that are simple, easy and valued by our individuals, businesses, enterprises and governments and I have to tell you that when we do our research, when we do our customer visits, when we have our customer meetings around when we look at purchase behaviour, all of that is reinforcing this strategy.

But it really is tied to true differentiation. It's not about being like everybody else it's being better than anybody else. So it is about the best delivery network. We now have absolute superiority in terms of 3G wireless network.

We are now building, and Greg will talk some more about this, IP core and the edge network that we're building in our fixed line part of the business which will be already is better but will become dramatically better as we go forward. And as we think about the reach of our fixed line business, and when we think about adding in QoS, we are going to differentiate even further and enable more services to be offered to our customers going forward. So all of this again is about differentiation which equates to being better.

We're going to have superior content and services, you see it today in terms of just go out here in the hallway and take a look at everything that's available, whether it be from Foxtel, Sensis, BigPond, Trading Post, Soufun. The idea here is we are an integrated company. We are an integrated company. Sensis is no longer by itself, Foxtel is no longer off by itself, kind of an interesting investment and if you look at BigPond and now its full integration into the business, we are delivering a new experience for our customers. Then that's simply because we have a new and unique access and ability to build, acquire and monetise assets as we think about our delivery systems.

Now, all of that gets enabled strategically by this deep customer understanding that we have. Done a lot of research, we've done our segmentation, we have a large customer base, we have the broadest reach in terms of channels, we have the highest brand awareness and with that then is now coming this emerging, truly competitive culture within Telstra.

Now all of that becomes important because we do have to deliver on the promise that we're making to our customers which is around this notion of simplicity. It's about the one-click, one-button, one-touch user experience that nobody else can match. So we're full speed ahead in terms of our business. We're following that strategy that we outlined last year and you just saw again. Focused on this one factory consolidation, structurally that is so important and so powerful within the business, we're improving the operations and enhancing everything in virtually every organisation. We're growing and intending to grow our revenues and margins and it's our intent to reach our destination ahead of plan.

Now, this morning we have announced the turn up of the best wireless network in Australia and at this moment in time I would say in the world, because we have maximum network speeds, there have been other HSDPA networks turned up at 1.8 so it's not the first HSDPA network. Cingular in the US is turned up 3.6 megbytes per second in certain cities but we are the first company to turn up a nationwide HSDPA network at these speeds all at the same point in time. I don't know of anybody that's ever done that and I have two world-class experts here that probably would agree with me if you asked them about that.

The coverage here that we will have versus our competitors it's not even comparable and the distance covered, the speeds covered, everything is not comparable today and obviously then the services are also not comparable anymore in terms of what we're delivering in terms of our experience.

But I want to take you back again back to last year. This is the network when I walked in the door a year ago that we had. Now many pieces of this still remain but it's going to get simpler and just as a reminder this is where we're going. So Greg Winn and his team are really working hard, as you've seen, to make this reality and one of the big pillars around wireless is now in place, it is an IP network and during '07 you'll see the next leg of our evolution will start clicking in. And we are working on all access technologies, including HFC and copper with DSL and all the other services that we have within our capabilities.

Now, we are building the best infrastructure which when you look at the networks that we have, all of that's interesting but it's only interesting until you also have the IT infrastructure that enables the customer experience that goes with it, where you can literally be real time, you really can electronically deliver all the services that our customers want. So we're focused on that and right now the focus is about simplification so that we can enable these additional services.

Now one factory, Greg will talk about this in a lot more detail so I won't take a lot of time here, but on the network side we're very clear in terms of our focus. We're migrating to an IP network from a circuit switch network. We're already on that path. Before I got here there was a lot of talk about it but it never started. Now we're doing and Greg, I think, will have some interesting news for you relative to the status of that. But we're not limited there.

As I said before, we're focused on our HFC, we're focused on our wireless infrastructure and obviously our DSL capabilities over the copper network. IT, simplification, simplification, simplification all tied to the customer experience and so we're on the path today and more news to come.

We are focused also on content and services and I want to be very clear with all of you. A lot of people in our industry talk about content, you know, we do a deal with Disney, we do a deal with Warner Bros., we do a deal with pick whoever you want to fill in the blank with. To me that's interesting but it's not the game. The game is about how you deliver the experience to the customer so it's easy to use, it gives them what they want and they can go in and out of whatever they want on whatever platform that they choose to use. And that's going to be the big difference between Telstra and everybody that we compete with.

So you can see the chart, you can read the names, you can see what we're doing in terms of existing capabilities, how we're enhancing our capabilities and also then what's new to our portfolio but I can assure you there's a lot more to come in terms of that integrated experience across all platforms our customers will have. Again it's driven by what we know about our customer.

I'm a zealot about customer research, customer knowledge, customer learnings and if you talk to Bill Stewart, you talk to David Moffatt, you talk to Deena, you talk to anybody here, every conversation in our business today starts with the customer, it doesn't start with the technology, doesn't start with anything else, it starts with the customer and it always ends with the customer because everything that we're driving today is driven from what our customers are asking us to be able to deliver.

Now all of this translates into a fundamental change in terms of how we think about the old economic model of the business and for all of you, I would just say this is something everybody in this room should really understand because we really are building a new economic model for this business. And so to contrast it I think about the old telco model where everything is really driven by physical activities with physical assets one at a time and that's an expensive model. Now in the old days when

you were a monopoly, that was the way it was and it was OK. But when you have competitors that are coming at you not just classic competitors, but also the Googles, the Microsofts, the Yahoos and others that have digital attack platforms, you have to pivot your whole business strategy and you leverage the advantages you have and also create new capabilities that enable you to compete and that's what we're doing. You think about the physical elements today and moving into a software-defined environment. If you think about these IP networks, what Carl-Henric and I talked about this morning, this upgrade from 3.6 to 7.2 to 14.4 to 40 megabytes is basically software, the upgrades. Now maybe when we get up to 40 megabytes we have to change some antennas but that's about it, not the core infrastructure. That is a big, big difference for those of us that know the industry, have operated in the industry, for a number of years.

When you think about products being delivered manually, people in trucks, you know, we talk about truck rolls, we talk about physical installations, physical repairs versus being able to have trouble diagnosis, isolation of trouble and the ability to re-route your services over and through the networks electronically is a big deal. It's a big cost paradigm shift for the business.

Then when you think about the notion of limited leverage that existed in the business in the past and how we're transitioning now on these digital platforms where any business that Bruce Akhurst wants to add on to his portfolio he can do it basically at marginal cost because he's already got the platform. And when Justin thinks about in BigPond adding more services, he can do that now in a marginal or variable cost kind of platform and when Holly's starting to think about all the products within the mobile environment on her product set it becomes a marginal cost in terms of how we deliver it. I can go on and on across the business but it's important to ingrain that and John will talk some more about that.

So as we think about what's only at Telstra, it's important to understand how we're thinking and driving that. Only at Telstra can you have a nation wide 3G HSDPA 850 network, only at Telstra. When you think about this My Place menu and we've tested it now with customers, it's simple, it's easy, and we shall see now, as we get into the market, what usage tends to look like. When you think about the interactive mobile video tutorial and the capabilities that we can now deliver through devices that we couldn't do before or if we tried it was kind of a waste of time because it took too long and it really wouldn't work, when you think about the integrated suite of content and services that shows up on this device now with the one-click capability, nowhere else can you get that. And so when you look now at Sensis on their sites and the one click to call we're integrating only with Telstra. And our first location Australia's only location of where mobile location-aware search engine is only with Telstra and our first legal movie download service was with our BigPond business. So we're focused on differentiation.

Sometimes differentiation can be copied but the point is that we're moving at market speed. Telstra is no longer the market follower, Telstra is now the market leader. I said that last year that that would be the thing that we would have to change and we are now leading the market in virtually everything that we do.

OK, that's interesting, now what about operationally, how do we think about the insides of the business. Clearly the big challenge for us is to streamline the company and to reduce the amount of head count FTEs. Now I think all of you have seen us now, have said it already, we're down about 5,000 full-time equivalents without a lot of noise, without a lot of problems, without a lot of anything and also our service levels are at record performance. I think that's terrific in terms of what our operating team is but we're not done. So where we are in terms of thinking about operations, you know, Greg will talk about this some more but productivity is also a key variable.

When you think about the true drivers of cost and what ultimately affects your income statement, it is about productivity when you have tens of thousands of people and you can see again our productivity is improving significantly and again, I've talked about service, I'm really proud of our team in terms of what they're doing every day for our customers and service again is as good as it's ever been, if not better in Telstra.

At the same time one of the key issues for me when I came here was making sure that we had a world-class team and we do have a world-class team. You can see in addition to a lot of the native Australian employees that we had at Telstra, we've supplemented with some other people that have world-class experiences in other companies and other industries as well. So we have a team now that is ready to compete, that's ready to deliver and is already doing much of that.

Now it's nice to have a strategy and it's nice to have talent but you also have to have the right structure to make it happen. And again, I think we now have the right structure in terms of our business that enables us to move with speed, to move with decisiveness and to move as cost effectively as we can possibly do. Starts with the one factory, it also includes shared support functions. We no longer replicate a lot of things within the silos of the business that I was asked about when I first came and at the customer facing level we're very focused again in a segmented way on our customers across the business because ultimately everything that we're doing is centred on what we know our customers want us to do.

Revenues, you've seen the first half versus the second half, John will show you that the trends are continuing. In terms of the growth, in terms of ARPU and the difference between 2G, 3G, the differential is holding. David will talk about some of the numbers. I don't want to steal his thunder right now. In terms of broadband market share, again market leadership in BigPond and it's continuing in terms of what we do and Justin will give you a lot more but I want to end here on terms of some of these key notes around this digital online capabilities and how that now is starting to show significant volumes, starting with what we saw with Bruce Akhurst at our full-year results where our online revenues now exceed those in terms of the new revenue growth, exceed those of our print business and it's not because our print business is in decline and at the same time he was able to hold and grow margins. Now you do the math. That is a pretty significant statement and that's now happening essentially with most of our online digital capabilities.

So our financial trajectory is on tract. So illustratory here I've tried to portray to all of you how we're thinking about the business. The key thing is that revenues on our new products, new services, new platforms, new capabilities are starting to accelerate and we have to accelerate because we have this thing called PSTN. It won't go to zero and I'm not going to stand here and tell you it will go to zero but

I will tell you it is going to be managed and I will tell you that it's going to be ultimately offset by a lot of the new service and new capabilities we're going to deliver.

In terms of cost, we've been very clear with all of you. Last year and this current fiscal year is our peak spend year, opex, capex and most of you have seen the guidance that John has shared. At the end of the day first half is going to have the negative 17 to 20 per cent trajectory that I've talked about, not a new number, let me be clear. No new number, it's the same, but what's not been talked about is that the second half of this current fiscal year is going to have a dramatic increase in terms of earnings and that will be the beginning of the turn in terms of how we think about this business.

Capex, this is the peak spend year, I've said it before, I'll say it again today, it is the peak. Next year capex drops again pretty significantly. And so when we look at cash flow ultimately on the back end, cash flow numbers will be as we talked about and we'll give you some specifics here.

So as we think about driving shareholder value, the big changes, the big changes aren't in revenues. I think somebody this morning as I read one of the clipping services said we were going to announce a change in our revenue guidance. Looks to me like this number's the same. It is the same. What's changing is the fact that we have a stronger belief in our new product revenue growth and a per centage of impact it's going to have in terms of our business. What is changing is going to be our costs in terms of the guidance that we gave for end of fifth year it included the impacts of some fibre to the node investments which would enable us to take some costs out of our core operations. Those won't happen with the decision that we made a few months ago. And also when you look at the revenues and the acceleration of revenues there's more cost of goods involved there so our costs will be different than the guidance we gave before.

So when you look at margins, we are now talking about margins in the mid to upper 40s in terms of our EBITDA guidance. It will be some of the best margin performance anywhere in the world and that's really key for us because we do have a unique business here and the business that we're building will be differentiated and the cash flow again, the targets do not change in terms of how we think about the end of transformation.

So what's coming in FY2007 in terms of transformation milestones, things that you should be watching from us and see us deliver on, or not, one is we've got to finish this wireless upgrade path. If you were hear this morning Carl-Henric talked about some of the range extenders and other things that we're going to be doing. We're going to be launching some trials around wireless local loop.

In terms of our IP/MPLS core, that has to be completed but Greg will talk about that. That's a core deliverable that we have to complete in this current year. We have to deliver on broadband across all access platforms. As I said last year, broadband is key and we will not lose in that game. So we're going to compete hard just like we are and we're going to compete aggressively through to platforms that are available to us which include more than just our fixed line platforms. And our first release of our IT transformation will happen essentially by the end of next fiscal year, I'm sorry, by the end of '07 calendar year and that will be a major deliverable that we all can look for in terms of what I would call a major, major transformation milestone.

In the case of the business financially, you know, top line right now we're ahead of plan. We're changing the economics of the business, our headcount reduction will stay ahead of plan, and, you know, once we get past this current fiscal year in terms of peak speed, the numbers only get better and obviously that will be reflected in underlying financials.

So we are in the process of creating what I would call a world-class company, not just the best in Australia, but one of the best in the world. We're going to be looking at continuing this notion of stimulating revenues while taking costs out of the business. We're going to be growing those revenues with attractive margins and you can now start seeing how that characteristic will happen. And in terms of differentiation in our networks, our content, our services, again, it's all real, you can see some of it today and obviously then creating, as we compete, with superior economics in our digital platforms. All of this will result in benefits for our shareholders, for our customers and basically, I would say, all of Australia.

Now I've been asked the question by some of our employees, so Sol, where do you think we are in terms of this transformation. Are we almost there in certain categories or are we not? In the case of wireless you've seen today, we've done the vast majority of the work that we need to do to differentiate and the nice thing is as we've laid all the tracks. So when we think about moving to 14.4 or 40 megabytes per second, it's a software upgrade. So the hard work has already been done and it really is differentiated and nobody in Australia is even close.

In the case of wireline, I say we're only at a 20 per cent point because we're going to be doing a lot of things over the next two or three years including soft switch fabric transition that Greg and others are going to be working on. When we think about our HFC network, when we think about wireless local loop, when we think about the integration of more of our wireless and wireline assets, there's more work to be done and I won't say a lot more because this is going to be unique to Telstra thoughts and capabilities.

In the case of IT, by the end of calendar year '07 we will have a major jump in terms of this number. Right now we're getting started, doing all the hard work, identifying all the changes that are needed, people are getting ready and starting writing code, etc, etc, but we haven't completed it. So we have a big jump by the end of calendar year '07 with the first release that we have talked about.

In the case of market base management, we're far along. You'll see it today in terms of how we're implementing and using not just talking, but using with results how that starts to differentiate. Our products, content and services on my vision about one-click, one-button, one-touch we're not even close to where I want us to be, even though we're way ahead of the market. We're not even close yet.

And in the case of the organisation, you know, one of the conversations that Carl-Henric and I had and some other folks and I had a day or two ago, was they said why do you think you were able to do what you did here with our wireless deployment faster than anybody's ever done? Is it because you're smarter, the answer's no, that one's an easy answer. In the case of are you organised to deliver differently and to decide differently, the answer is yes because we have broken down the silos, we have

a streamline set of strategic decision making capabilities in the business and when we make decisions we execute. We're not about revisiting, we're not about re-debating and we're not about looking back. This company is all about the future and all about moving forward.

But as a reminder for everybody, we're not taking short cuts, we're not going to do the easy things, we're doing the tough things because this is a 5-year journey but I have to say, that this transformation is already delivering.

So with that, I'm going to stop and I'm going to invite up Carl-Henric Svanberg, the CEO of Ericsson, to join me to talk about a little bit about our launch this morning. We've already announced the launch so we won't revisit a lot of that, but I thought it would be helpful if we could just have a chance to talk. So please help me welcome Carl-Henric.

Well this morning we had a chance to talk about the capabilities but I thought it would be helpful for you, since we've taken your technology, into Australia now and we've really started deploying it, you want to talk a little bit about that migration all the way on to 2009, 2010 so everybody understands that it's not just smoke that I'm talking about but it's real?

CARL-HENRIC SVANBERG: I would say first of all that we have done a record roll out here in the entire Australia which is significant and the biggest so far in the world. We are - when you come from traditional 3G technology and you go in to HSBA, it's all about data, it's all about increasing data speeds on the same infrastructure as you rightly said.

I think it's very, very important that we have a smooth migration which will describe where we can go from a speed level and then with more software and better software and better chips in the phones and so on we can advance it up to higher levels. We can go up to 14 megabytes per second and then we can go even further up to 20, 30, 40 megabytes per second but using double antennas. That of course takes us far beyond where we really need to be with in terms of handsets and the card for PCs but that will take us through when you can have higher resolution TVs and basically you can do everything you want wireless, you're not dependent on broadband wireline anymore.

I think that evolution is extremely important to safeguard investments that you are doing and I think what really is fascinating with this step that you take today is that we are getting to a break point. I mean it is exciting to now use your lap top with a PC card, you don't have to sort of say well I've got such a large attachments I better wait until I come home and can plug in the computer or maybe I shouldn't download all this music or it doesn't really make sense to stream this TV program and see it I better come home and see it on my TV. That is basically gone. You can do all that with the same quality you're used to.

SOL TRUJILLO: So when you look then at the next evolution of services, you know which is important for driving ARPU, because one of the key discussions that we have all the time inside the company is about our average revenue per customer per user. What are some of the exciting let's say trends that you're seeing around the world or ideas that you see emerging around the world?

CARL-HENRIC SVANBERG: Well I would say that it's basically around - if you look in big numbers, it is basically around three things. It is enterprise solution mobile office. We are, all of us that travel all around all the time we want our - we want to be able to reach our office and do all the great things on simple devices and I'm sure that we will see also not just phones or lap tops but also midsized devices which you can use. As it grows maybe when I - when I started when you had your mobile phone and you thought that that was something that you as an executive you could write into your package that you had the right for a mobile phone, in reality who now needs it the most, it's the carpenter, it's the painter who can work with this office in the pocket.

Mobile office is one thing, music and music downloads is a big thing. 6 per cent of all music is today sold digital, it's the fastest growing digital channel. If you look at 3G subscribers in the UK they download on average four songs a month. This is happening now big time.

The third factor I would say is IPTV and mobile TV. I don't think anybody of us will be looking at Gladiator on our mobile phones but certainly to get a 5-minute business update or news update it's great and in the lap top as some of you the saw this morning, great TV quality.

SOL TRUJILLO: Good. Well you know, that's important because you know everybody here I think in the industry has talked about, you know, the first wave of 3G launches have not really shown great impact financially in terms of ARPU and all of that but is it your view that now when we think about the next layer of change that at these speeds now we'll finally see that? I mean you've talked about music downloads and some of that, what else do you think is how say the financial community be thinking about this business from a carrier perspective?

CARL-HENRIC SVANBERG: As a carrier we are also coming from - we've had a background now where we are used to that Internet is free and that is of course that puts carriers like yourself under challenge, what are the business models going to be like but I think as we go on and we see the productivity gains and so on from your office applications or from your music downloads or whatever, that's where of course you have to find your revenue.

I would say that if you look at - we expect data traffic to quadruple in the next five years in mobile networks and that is actually happening. Many of analysts are saying there's not that much happening yet but that's often because you look at the total carrier and see so far a smaller number of 3G subscribers but if you look at what happens there, as you say, I think you had 34 per cent higher output on your 3G customers that is a fact and that is growing now.

SOL TRUJILLO: Good, good. You know turning to Australia now specifically, you've had a chance to be involved in probably the most massive build. Can you describe what you thought it was going to be when we started versus what it turned out to be?

CARL-HENRIC SVANBERG: Yeah, we were very - we were - we felt confident when we signed up on the agreement to basically deliver on 6 October. It looked like an incredible mountain to climb. I will talk to my staff today and I will tell them that they've done something that is beyond expectations. That is a hard thing to say because you wouldn't like to hear that but it really has been incredible. But

I think that push that we have had jointly, because it's been a team effort, you can't do this alone, that joint effort has been - has been simply great and one could of course say why don't take it 10 per cent slower and launch 6 November instead? But once you get off that high tempo and full attention and speed and all that, then you get into a mess of excuses and things and then it can take 20 months instead. So I think this has been a world-class best practice example.

SOL TRUJILLO: Well pace is important for us here at Telstra, in case you didn't notice.

CARL-HENRIC SVANBERG: It has crossed my mind.

SOL TRUJILLO: We're trying to move at record speeds but doing it with quality and so in your mind as you think about this turn out, I had a question this morning from the media that basically said do you have capacity issues or are there other things that might be out there that, you know, you are rushing this, what's your sense about the quality of the turn up, the capacity, the technology, functionality, etc?

CARL-HENRIC SVANBERG: Well it's, as some of you saw this morning when we had the ice hockey came and so on, it is great quality, the beauty of the technology is that it has a lot of capacity so as you will drive up traffic, capacity shouldn't be a problem for quite some time. We hope it will be some time before you need more capacity and of course it depends a little bit also on exactly what kind of services that actually take up and so on. If you have a - or if you get bottle necks in transmission or you get bottle necks in switching or whatever, that depends a little bit on what services pick up but this is a high calibre, high capacity network .

SOL TRUJILLO: Now I just last night in talking with Carl-Henric and one of his associates Hans, we had an interesting statistic about the pace and which we were driving this daily, do you want to share that?

CARL-HENRIC SVANBERG: It was - this has been an incredibly tough project and Sol and I, the teams we've been on the phone and Swedish time 8.30 every Monday morning and checking on the status and counting our sites that have been integrated and we were for quite a while we were putting up a radio base station every 24 minutes, 7 by 24 by 7, that's pretty massive when you think about it and I said to my guys when I was up here and taking credit for it, we've had 1,400 people out there including our partners that have really worked hard and are still out there in the barricades and doing the job. So I'm just grateful to be here and represent that staff.

SOL TRUJILLO: Well to me that is an important statistic because you know what Greg and John Gonnor and Mike Wright and the team have been driving along with your team has been phenomenal and from a competitive standpoint I always look at my competition and say match that. See if you can be as good, see if you can deliver as much and see if you're willing to try to take on what we've done so competitively I would say I've never seen any statistic that's even close to that.

Let me ask you one last question because I know you need to get to your meeting with all of your people. When you think about a strategic relationship, you know, as a supplier to a company and as a company, you know, back with the supplier, what do you see as the important components and characteristics and why even call it a strategic relationship?

CARL-HENRIC SVANBERG: It's easy to talk about strategic relationships and partnerships and so on but I can understand every carrier wants to have several suppliers and make sure that you can bargain and get the best possible deal and so on but this technology has become so complex and there are so many things that needs to play together, so unless we really can sit down in good trust and look at the challenges that we jointly have and make sure that we understand them and how to solve them and come to the market and the consumer with the expected delivery and services, it won't work.

So for us this kind of partnership is absolutely crucial for our success and I believe for your success and the same for other carriers and vendors.

SOL TRUJILLO: OK, well thank you, Carl-Henric. I'm really pleased with all that you guys did to help us. Thank you very much.

CARL-HENRIC SVANBERG: Thanks for letting us be part of it. Thank you.

SOL TRUJILLO: Now I have the pleasure of inviting on to the stage another one of our strategic partners and his name is Serge Tchuruk. He is the chairman and CEO of Alcatel. You haven't seen a lot happening in kind of visible ways around what we're doing with Alcatel yet but it's happening and it's happening in some big time ways. So I'm going to ask Serge to come on up and join me so we can chat a little bit about our network, our relationship and all the things we're doing. Please help me welcome Serge up.

Now Serge, you operate obviously out of Europe but you operate globally and as we were looking at this notion of next generation networks and we were doing our assessments obviously we came to the conclusion that Alcatel was best capable, best equipped to serve us, but part of that was because you've been on this path already with several world-class telcos around the world PTTs as we call them. How many of the top 10 PTTs do you currently work with on this next generation?

SERGE TCHURUK: If you take the top say 12 because, you know, the top 12 represent something like 80 per cent of the total investment, we work with 9 of them, 9 out of 12, 75 per cent. So we are involved in projects throughout the world which are all generally aimed at the same thing, expediting the transformation of networks straight away.

There are shades, differences in the way people do things but basically the end result is the same, similar, put it that way.

SOL TRUJILLO: Yeah, I agree with that because having operated on three different continents I pretty much know most of the players around the world. So as we think about Carl-Henric and now Serge, both of you are, as they call in Australia, amigos of mine and you know obviously as - - -

SERGE TCHURUK: It's not easy to be an amigo of Sol.

SOL TRUJILLO: You know, as I look at the other PTTs around the world, clearly I know most of the CEOs of most of the companies, all of us have the same pressing need about speed of this migration to an IP kind of world. What are you seeing as kind of the best things that you can do and how quickly you can move and where the benefits are because you get to see it all?

SERGE TCHURUK: Just one fact first, why are people in such a hurry to go to these so called IP transformation sort of route? The basic idea is really to substitute several networks which they all operate each one specialising on a certain task and to substitute all of them by one single network which is IP based which does achieve a lot of things.

First of all it constantly reduces the operating costs. If you just run one network instead of three, four, five, six, something that has unbelievable complexities, you saw the chart in Telstra which is typical of what you mean. And then it is a fact that IP does bring a lot of power to diversify the services which can bring through the network to the end customers. Services expansion and searches today of the so called carriers are really getting in to content distribution. They are just changing their nature. So it is a completely new ball game. So the basic reason is the same for just about everybody. The way they do it might be quite different.

Sol, if you want to ask me to tell you the way I sense our big customers and their approach, well overall, worldwide we are to say the least, leading something like eighty big projects, like beyond the nine out of twelve largest ones. You could say about half of those projects are aimed at getting to IPTV on the fast route. Others you could call IP transformations but in the end they are also leading to IPTV type. So they are going to converge. But it's shades of difference in the way people tackle it. So if I take, say five or six examples, take in the US for instance you will see AT&T having gone in to massive programs, what they call Project Light Speed -- bringing IPTV to 80 million homes actually which doesn't take a lot of the equipment that you are putting in place here at Telstra but it can take from Alcatel with the integrator. Integrator of what? It starts from the source of data, the contents down to the set top box sitting on the TV sets. So we guarantee the whole system. That's one approach.

Incidentally Verizon--- and it goes through the fibre to the node by the way, has 20 megs per second at least as opposed to Verizon, who took a different path they are going fibre to the home which also Alcatel is implementing and they are jumping to 100 megabits per second and if you ask me Sol everyone more or less will go to 100 megabits per second in wireless. It's not a question of time. Not so long ago people were going what the hell do you do with 100 megabits per second. The question today is sort of superseded because we do high definition TV or 3D TV or all of it, or interactive TV----. So that's what we do with AT&T, the former SPC.

We have a very similar approach with Telefonica in Spain. They are doing precisely the same thing, doing a lot of VP and stuff for enterprises. So that's one set of approaches. We have the set of approaches that are more typical of Telstra having a major revamp of the network of IP transformation which does entail IP DSLAM, SMS aggregation, does it take a lot of sophisticated networks it can lead you practically to a whole range of applications typical of Telstra. I know Deutsche Telekom for which we are doing practically the same. They start with Slovakia and a couple of countries and then they do it in Germany.

We are also doing things with China. China Netcom is already switching to an IP network. They are switching about 7 million users, you know, like this. They have done so typically like your type of equipment. So you could see worldwide the trend that everything is taking place right now towards the same goal. And to be frank it is going to change, not only the networks but it is going to change a lot in what your business is going to look like.

SOL TRUJILLO: Well I think that, you know, two things that you said. One is that we are moving into a deca megabit kind of world and that's because there are services and uses that are going to require that as part of what we call the 21st century lifestyle and business lifestyle.

The second thing though that I think is really important and that maybe you can comment on, when Greg and I and others sat down and we started looking at choices, and which company is the right fit for our strategy. I think you remember a conversation you and I had about 10 years ago which my view has always been that companies like Alcatel, like all your competitors need to think about not just component elements of a network but how all the component elements work together because otherwise telcos like Telstra have to work hard at making all these piece parts work and managing lifecycles and all that sort of thing which creates costs. Versus having a company like Alcatel that really does manage all that kind of integrated component pieces so that you can manage all of that and we can simply manage the delivery of the service as opposed to managing the actual execution of the technology. You touched on that a little bit. I've seen a big migration in Alcatel from 10 years ago when you and I first talked where we didn't use Alcatel in my company in the US versus today, the choice that we made to select Alcatel.

< Briefing continues at Hilton Hotel >

SOL TRUJILLO: Again, let everybody know that this time I'm ready for whatever happens in terms of the weather, the sprinkler systems, whatever it might be. Last year we had a situation where it rained. The difference was it rained on the outside as opposed to on the inside.

Today obviously I do want to share with all of you our enthusiasm is not dampened at all. It is not dampened simply because it takes a lot more than cold water to slow us down. The Telstra team building the Next G network have overcome many obstacles, much bigger than a free-range sprinkler. So when you think about the stories - we didn't show the pictures; we didn't have enough time this morning - but when you think about the cyclones, the cyclonic weather, bushfires, wild animals, disease-carrying mozzies, bone-jarring corrugated roads, 45-plus degree temperatures and even the wreckage of a World War II bomber, there is not much that is going to stop this Telstra team. So a little humidity like we had this morning isn't going to dampen our enthusiasm for what we have announced this morning and where this company is.

So I think it is now time to get on with the show. When we are finished, I will have my card behind the bar, so go for it. I say to most of you or all of you: forget the soft stuff, go for the hard stuff; I will, and I

don't even drink.

So what I would like to do now is introduce the rest of the day. Obviously I would like to thank Serge Tchuruk, the CEO of Alcatel, because we got somewhat truncated, but we were about to the end. But now it is time to talk and listen to the operational side of our presentation today. With that, I want to introduce Greg Winn, who is our chief operations officer, and he is the guy that's really driving all that you have seen today in terms of the business but also what you are going to be seeing down the road in terms of our networks, our systems and all the operating capabilities. Greg.

GREG WINN: Before I get started, I just want to clarify a couple of things that you saw this morning. One is when we were having all those remote locations around Australia on the video call that Sol had with them, the picture quality obviously was degraded because of the mechanism of getting them on to the big screens. If you were actually having that call on the handsets, the video imaging is absolutely unbelievable. We are having great results with this new 850 network and we are extremely proud of it.

So on November 15 of last year we laid out an aggressive transformation program. The program is not changing part of the company; it is changing the company. It is going to affect every part of our business, every one of our customers, the way our people work together and how we compete. As COO my operations team is responsible and accountable for delivering many of the components of this transformation. So when we started I laid out some principles, and we intend to follow them.

Today I will share with you the progress we have made, but let me give you the bottom line now. My team and the world-class partners that we have chosen are delivering on our commitments. We are on track, we are on budget and we are ahead of our delivery schedule as you saw earlier today. This has taken a monumental effort and we have really been busy.

Let me give you a few facts to paint the picture. Since July of last year we have laid almost half a million kilometres of fibre optic cable in our backbone network. We have laid well over a million kilometres of copper. We have installed 1.6 million new DSL ports and we have built about 11,000 core transmission links.

In addition, we have added 400,000 additional hours of battery back-up capacity for the network. As part of our building our Next G wireless network, we have installed almost 10,000 new E1 access solutions in our transmission to our Next G wireless network. To do all of this and the many other things that we have been doing, our construction stuff have driven over 70 million kilometres - that's half the distance from the earth to the sun. We are also changing the way we schedule about 25,000 jobs every day. We have deployed over 10,000 new tools to our field staff and equipped about 3,300 vehicles with GPS capability. So yes, we have been busy.

Today I'm going to summarise our progress and results across four main areas: the new network and the systems infrastructure that we are building; what we are doing to clean out the complexity of our business; and how we are implementing new tools, training and processes to enable us to deliver better service at a lower cost. We are also looking in our real estate and supply chain how we are driving savings in our non-labour cost categories.

There are several major parts to the infrastructure transformation. On the network side we have programs for both the wireless and wireline transformation and on the IT side we are transforming both our BSS and OSS systems as well as reconfiguring how we manage our data centres. When we are done, Telstra will have an IT and network platform unmatched by any other telco in the world, let alone those in Australia.

Today I will give you an update on how the build is going. In case you are wondering, the bottom line is we are on track, we are on budget and we are ahead of our delivery schedule.

You heard Sol and Carl-Henric talk earlier today about the amazing effort that has gone into building the new Next G wireless network. If you ever needed proof to show you that there is a new Telstra, that achievement is a lot more powerful than any of the words that I can say here today. In case you didn't hear it this morning, our Next G network has 100 times the geographic coverage of any other 3G network in this country.

So this means we have been out building in some of the most remote parts of the country. As an example, we are building a 240 kilometre fibre optic cable to connect remote locations on the Cape York Peninsula in Far North Queensland. That's the blue line on this slide. This is the final leg in a project that will bring much improved transmission and allow 3G capabilities to be provided to the remote Aboriginal and Islander communities reaching as far north as Thursday Island.

Our wireless program extends beyond the Next G network. We have also been improving the depth and quality of coverage for our existing wireless customers. We have built over 100 new cell sites in Sydney. We have modernised over 2,000 existing 2G base stations. We have upgraded the entire 2G network with edge high-speed data capability and, suffice to say, the wireless transformation is well ahead of plan.

The intent of our wireline transformation is to create a fast, scalable platform and an industrial strength platform from which we can deliver high-value services with extraordinary reliability and low unit costs. The heart of this new platform is our new single IP/MPLS core which replaces our current dual core multi-architecture infrastructure. It is faster than it was before: 77 times the speed. We are running at 92 terabytes per second instead of 1.2. It is cheaper, about 40 to 60 per cent cheaper lower costs per quart.

It is simpler: we have 28 core routers instead of 52 legacy routers, and it has better redundancy, scalability and coverage than any of our competitors' core networks. The program is ahead of schedule. We have already completed building all 18 sites across eight cities well ahead of our planned time line. We will have full migration of all of traffic completed by mid-year 2007.

In addition, we are deploying a new multi-service edge. This capability will allow us to deliver services to customers over the single IP/MPLS core regardless of their access network. It will allow us to take out older platforms without impacting our customers. We have completed about 20 per cent of the installations and are on track to have all of them done by the end of this year. The new architecture is

far cheaper than what we have today: 70 per cent lower cost per quart. It is far simpler. Up to 80 per cent fewer platforms are required for the same footprint and the same capacity.

We have already begun testing and development of our new soft switch technology with our partners from Alcatel. Our legacy switching technology required enormous exchange buildings like this one housing large installations of switching equipment. The extraordinary new soft switch technology shown here can support up to 2 million access lines and 2 million simultaneous calls. But they are going to be configured at about half that capacity so we will provide a fully-redundant fail-safe capability. This equipment takes up a mere 25 square metres of floor space, a tiny fraction of the current generation network requirements.

We have already had one mated-pair of soft switches installed in our new Telstra integration laboratory. The integration lab was officially opened on August 24th. This was an important milestone in our network transformation. It houses one of the greatest concentrations of state-of-the-art telecom equipment anywhere on the planet. It is being used for integration testing and analysis of our new network. No other company in the country has the depth of capability that the lab is now giving Telstra.

Sol mentioned access technology earlier today. Obviously our fibre to the node project is still on hold. Make no mistake: we have been moving very aggressively in upgrading our HFC network, we are looking at wireless local loop technologies and we are looking at our ADSL type capabilities that we already have deployed.

So our wireline transformation is about building a world-class industrial-strength infrastructure unmatched in reliability, speed and cost effectiveness. In addition, we are well advanced in creating a platform for the rapid development of new integrated services. That is our service delivery platform, or SDP as we refer to it. This platform will help make Telstra's one click, one touch philosophy a reality. The SDP will enable a simple, seamless customer experience across multiple devices and networks such as 3G850, DSL and our cable networks.

It will enable the delivery of a wide range of new services such as unified messaging, text to speech and collaboration. It is built with a set of modular reasonable components. This fundamentally changes the way we compete by supporting faster deployment of new services - faster by nearly 75 per cent compared to the standard product development cycles that we have today - and far lower cost: we will save up to over 50 per cent in deploying new products.

We are also making rapid progress in improving the reliability and robustness of our existing infrastructure. We are swapping out equipment which doesn't meet our standards. For example, we identified that our broadband router platforms were causing unacceptable levels of outages in our data network. We targeted the removal of these boxes and have successfully migrated a quarter of a million services for our enterprise customers over to a new Juniper platform, and we did it in just eight weeks and we did it without missing a beat. The new architecture gives us five-nines reliability and we have had no outages since it was installed. So as well as providing far greater reliability, throughput and flexibility, our new infrastructure will deliver substantial economic benefits.

I have already touched on some of the unit cost improvements, but these are really dramatic. So let me repeat them. The cost per port in the core network will fall by 40 to 60 per cent. The cost per port on our multi-service edge will fall by 70 per cent and the cost per DSLAM is falling by greater than 30 per cent.

The cumulative impact of these and many other reductions will be reflected in our capital expenditure ratio. Last November we outlined our goal to take our capex spending as a per cent of revenue down to 12 per cent by fiscal year 2010. That's a reduction of about six to seven points from historical spend levels prior to us doing the transformation. It is going to equate to a cash savings of over $1 billion per year. You heard from Sol earlier that we are now projecting this to be even lower. It is going to be in the range of 10 to 12 per cent. So this will fundamentally change the cost structure of our business.

Now moving to IT. Let's talk about the IT transformation which will deliver a wide array of capabilities in our front end and our operational support systems. In November of last year we committed to an aggressive release schedule. The CRM, customer care and billing, elements of the program will be deployed over three years and the operational support systems over three to five years as the new network infrastructure is rolled out. Prior to the delivery of these major releases, there is going to be a series of minor releases that start this year.

As a result of an enormous effort in 11 months since, I'm pleased to report that we are on track, on schedule, despite rumours to the contrary. The press is just plain wrong on this topic. In fact, we have already met a series of major milestones. We have selected a dozen world-class partners to work with us across the key systems domains as you can see on the slide. We have negotiated and signed contracts for the current phases of the transformation work with each of these partners. Many of our contracts are ground breaking in the way they ensure that our systems partners have substantial skin in the game.

We have also worked across the business to define the detailed functionality and requirements to identify gaps in the outer box functionality available from selected systems. The results have been quite impressive. Our current estimate is that we will be able to meet more than 80 per cent of our agreed functionality for our billing and customer care systems out of the box. That's excellent relative to the typical global benchmark of about 65 per cent. We are working with our partners to lay out their future road map of enhancements so they will build into their future releases those changes that we need to make. It is going to avoid the temptation to develop custom code other than where Australia specific rules and regulations will require us to do it.

This will take us well beyond the 80 per cent mark. Detailed schedules have been drawn up and there will be major capability releases in late 2007 and then in 2008 addressing the consumer, business and enterprise customers as well as our OSS systems.

Another major part of the IT environment is our data centres, where we have recently negotiated a major new contract with IBM. This contract will deliver almost $300 million in savings over the next six years and has the flexibility we need to accommodate the changes to our IT infrastructure as we

drive it through the transformation. The project is on schedule with all key milestones met and is on track to be completed by December 1 of this year.

Let me talk about simplification. This is a complicated business. Over the years we have made it a lot more complicated than it needs to be. You might remember the picture of our legacy networks that we showed last November. We are absolutely determined to change this picture product by product and platform by platform so as we start to deploy the new infrastructure we are systemically removing the old.

You heard in November that we intended to reduce about 1,250 of our IT platforms or about 80 per cent over five years and to cap or exit about 65 per cent of our 330 network platforms in the same period. This is one of the most challenging parts of the program. But, after drilling deep into the issues, we have reconfirmed our targets and have already made good early progress. In our IT arena we have already exited 115 applications with a further 75 exits currently under way. This is right on schedule against our 80 per cent target. In the network arena we have already capped or exited 58 platforms. It is a very difficult process, but we are well ahead of schedule and in fact we have already exceeded our target for end of calendar year 2006 as we stand here today.

We have also made further progress in simplifying our product set. We are doing this to reduce cost, but we are also doing it to make the task of implementing our new IT systems faster and more effective. We are not going to take the legacy baggage with us into the new world. As an example, we currently have about 2,200 products and pricing variations in the business and we plan to reduce this by 70 per cent once our new systems are turned up.

Let's talk a little bit about productivity. We committed last November to reduce our full-time equivalent head count by 6,000 to 8,000 by June of 2008 and 10,000 to 12,000 by June of 2010. We intend to do this while improving customer service, and you will see a little later this is exactly what we are doing. So it is not about blindly cutting the staff. It is about careful processes which streamline the business, provide tools and training to improve productivity and then reaps the benefits.

Let me give you a glimpse of what we are doing in our Telstra services work group, and that's the work force and the people responsible for managing, building and maintaining our network. They install and support services for customers as well. In the training area, our training has been far from what it needs to be.

Historically 80 per cent of the total training days have been spent on health and safety training and less than 20 per cent on the skills needed for our field staff to do their core jobs well. So we established the technical training academy which piloted its first course August 2, one month ahead of schedule. The academy delivers a balanced mix of courses centred on the skills our field team needs to do their core jobs well. When you look at that, it is going to deliver us the best trained staff of any telecom company in Australia.

But even the best trained staff can't be effective without the right tools. So when we looked at the tools that were out on the field there were a lot of gaps. Since November we have purchased and deployed over 10,000 individual items to properly equip our field team. These include fibre splicing machines, optical analyses, gas detection units and 3G test kits.

I will give you an example of the difference this makes out in the field. There was a flood - "flood" is a bad word today - in a remote area of South Australia recently which took out some of our fibre run. Extensive work was needed to restore the service. Previously we would have had to send two staff all the way from Adelaide, a 7-hour drive each way, just to fix this. So that's almost four person days spent travelling, not to mention the delay in the restoration. But, because of the recent training and the deployment of new tools, we were able to use staff located just two hours away providing a faster response, less wasted travel time and we did not have to take key staff out of the Adelaide site.

In addition, we have been piloting a new technician tool kit, as we call it, and it is deployed on ruggedised field laptops. This tool kit brings together all the enhanced information, reference materials and on-line tools that we are providing our technicians. So there is less time spent on paperwork and more time spent on serving customers.

On top of this, we are adding GPS location and tracking satellite navigation capability to all of our field vehicles. We have already equipped over 3,300 vehicles and by Christmas we will have completed a 7,000 unit roll-out. So we are going to know where our vehicles are at, how they are going about their work and better enable them to be scheduled, manage our fleet and our staff and cut the travel time by using these tools.

We have also made dramatic changes in the tools and processes at the back of the office to manage the staff out in the field. So let's take scheduling. Before we started on this program we had 750 staff in eight centres across the country managing the scheduling and deployment of about 12,000 field workers, both staff and contractors. That's about one person for every 16 people in the field. When you have that many people involved, guess what happens? They get involved.

So, even though we have one of the world's best automated scheduling systems, manual interventions were being made on about 55 per cent of the scheduled work. So now we are consolidating these eight centres down to three. The cut-over began in August. When it is complete, not only will we have fewer centres but we will also have about 30 per cent fewer staff overall and about 50 per cent fewer doing the actual scheduling. We are dramatically reducing the amount of manual intervention. Since we started on 1 August we are already down by 80 per cent. The bottom line here is that we are about getting the right person with the right skills with the right equipment to the right job at the right time.

We are measuring the hell out of our performance. We systemically track seven categories of KPIs across a range of productivity and service dimensions, right through the team leaders and the techs at the front-line. So what is happening with performance? We are seeing substantial improvements in productivity while at the same time achieving dramatically improved service levels. In fact our service levels are some of the best they have ever been.

For example, one key metric we use to measure the customer experience is initial appointments met; in other words, the per cent of time we meet or beat the scheduled appointment time. A year or so back

we were rescheduling installations over 15 per cent of the time. That is now down by more than 40 per cent to about 9 per cent. The faults that we had to reschedule customer visits on were running more than 16 per cent, and that has been reduced by more than 50 per cent to around eight.

These levels of performance are the best Telstra has seen since the CSG or customer service guarantee standard was introduced eight years ago. This has been achieved despite having reduced the number of people and the relevant organisations by nearly 1,700 over the same period of time.

Another key customer experience measure is the rate of revisits within seven days. That is for an installation or a fault where we have to dispatch another truck within seven days because quite frankly we didn't do the job right the first time. This time last year and the year before revisit rates were averaging just over 4 per cent. The revisit rate is now down to about 15 per cent to a new low of 3.5 per cent.

And that's not all. We are also seeing the good volumes go up in many areas, and here are just three. In every case we are well ahead of our targets. The faults cleared without a truck roll is an important driver of efficiency. It counts how often we resolve problems at the front of the house without needing to roll a truck, which costs us 20 times as much as a front of the house clearance. So through better tools, training and processes we are systemically driving this percentage up.

We are also increasing the portion of customer calls for faults answered in 20 seconds or less, which is a key driver of customer satisfaction.

But the most important of all on this page is the last item, technician productivity. Through a combination of all the things we have launched so far we have already seen a 15 per cent increase in productivity of our field staff. This measure covers over 4,500 technicians. So even a one per cent change is very significant. A 15 per cent improvement is dramatic, and we are well ahead of plan on this metric.

At the same time we are seeing the bad volumes go down. First, as you all know, the government has imposed a series of customer service guarantees on Telstra where penalties are incurred if we don't meet certain service levels. As you can see, the amount of those payments has dropped dramatically, benefiting from our overall performance improvements in scheduling and on time performance. We have dramatically reduced our overtime hours through more effective management of our resources and scheduling. These high-cost hours are down 60 per cent year over year.

Lastly, the backlog of unsatisfied ADSL orders has plummeted by 74 per cent from over 19,000 in August of last year to less than 5,000 now, and that is despite large increases in our order volumes over the same period of time. So that gives you a sense of how we are going about doing things.

Of course, the improvements are not just out in the field. There is also significant changes in our billing and collections areas. Bad debt expense fell 23 per cent year over year. On-line billing is up 36 per cent in the same time frame. Our overall costs per bill has fallen by 10 per cent through June of this year, and it will fall further again through this fiscal year. Our billing expenses are down about

$17 million year on year.

Through the initiatives I have discussed and many others across the business, it is no surprise that we are now well ahead of our stated full-time equivalent reduction targets. In the first year through June 2006 we reduced the total company headcount by about 3,859 people, and that includes contractors and agency staff but excludes the CSL-New World merger.

Our three-year target is a reduction of 6,000 to 8,000. So at June 30 we are already about halfway to the top end of that goal after just one year, and the strong momentum has continued so far into this current financial year. Remember that all of this has been achieved before we implement all the new IT capabilities that is going to make our people so much more productive, and it has been done during a time when we have had a great deal of effort assigned to the transformation itself. So, once the transformation work is done and we have turned on our new systems, we will be able to take our performance to a whole new level again.

Okay. Now, let's take a look at what we've been doing with some of our non-labour operating costs in real estate and supply chain. We're making real progress in streamlining our commercial property portfolio. Last financial year we exited 25 commercial sites and this year we've already exited a further 11. By June of 2007, we'll be out of another 22. Collectively these 58 sites represent the exit of over a 100,000 square metres of office space and will deliver an annual lease savings of $38 million. The program will also reduce the number of sites that our staff work in and travel back and forth to, so we'll cut travel costs and improve our overall effectiveness.

In fiscal year 2007, we'll also generate over $20 million in proceeds from selling surplus commercial property and a further $21.5 million in rental revenue from surplus space which we have not divested. This program will be given added momentum by the study of reduction in our overall head count.

Our procurement strategies have come in for a lot of criticism in the press including from one or two of you in the room that I can see are here today. Seems like some people believe that Telstra's previous approach was working well when, in fact, what it created was a complex business with way too many suppliers, way too many platforms, systems, and standards; and it was way, way, too slow.

So we were overpaying. We were acting like a series of small companies instead of one large enough to have a strong negotiating position even with global vendors. That was absolutely crazy so we changed it. You saw this morning the power of picking a world-class vendor like Ericsson and working 24 by 7 with them to set a world record for speed of deployment.

Under the old system, we might still be finalizing the contract instead of launching the service. Brightstar, another favourite subject. The press would have you believe that this relationship is a bad idea. Well, it banked us $70 million last financial year, and we expect a further $150 million of savings this year. So much for bad ideas. There are actually two phases to our Brightstar work. In phase 1 we put in place a strategic sourcing contract for the procurement of handsets and wireless data cards. The benefits have been dramatic. We've achieved savings of over 15 per cent on more than 2.5 million devices already and supplier performance has already improved with the lead times dropping by about

half and a far better on-time delivery performance.

Phase two is about Brightstar working with us to manage our supply chain for certain goods and services. Brightstar commenced management of the fulfillment centre on March 15th right on schedule and supported shipments of over 900,000 devices from April to June, and they did it while maintaining our service levels. Clearly this arrangement is delivering extremely well. So, yes, we direct source to Brightstar, our partner and it's one of the really successful things that we've done so far.

By the end of this financial year they will have saved us well over $200 million. Apparently some people don't like it but fortunately we don't take our instructions from them. So aside from our work with Brightstar, we've made some important changes to the way that we manage our broader supply chain.

On September 12th, we announced that Telstra signed a seven-year supply chain arrangement with IBM that's going to create an expected $500 million net savings over the life of the contract. And before you ask, yes, we direct sourced it. This arrangement will be phased in over the remainder of this financial year and as well as delivering savings, the contract will provide us with a single company wide view of our spend, performance, and compliance by vendor and will accelerate the automation of our procurement processes.

So you've heard me talk a lot about the tangible outcomes which add up to a dramatic progress by any measure. What this means is that we're delivering on our commitments we've made, the ones you've seen here, and many more. We're building the new infrastructure. We're simplifying the business. We're deploying new training and tools, and we're increasing our productivity and we're dramatically improving the customer experience.

This transformation program is a complex and difficult process but the bottom line is that we are transforming the business at the same time as we're improving the customer experience. This is a remarkable achievement. We have proven over the last year that we really do know how to change the tires at the same time we are driving down the highway at full speed.

We've been able to do this by following the one-factory principles. We laid them out last November. You do it once. You do it right for the customer. You do it in an integrated way, and you do it at a low-unit cost. We can clearly see measurable benefits of this coming through all of our operating metric and the financials in the Telstra Operations Division.

Our year-to-date numbers this year already had a plan in what is a very challenging plan. But remember we're right in the middle of the heaviest period of the spin for the transformation, so we have this overlay of the transformation costs. It masks the full impact of the underlying benefits which we're achieving at the operating level of the business. You will start to see more of the benefits flow to the bottom line over the course of the next 12 to 18 months as we get through the major spin phase. We turn on our new systems and continue to turn off our legacies, platforms, and systems.

So to conclude let me repeat one more time: We're on track; we're on budget; we're ahead of our delivery schedule; and we're delivering a much-improved customer experience. So watch this space. I can promise you there's a lot more to come.

SOL TRUJILLO: Well, thanks, Greg. Obviously if any of you have any doubt about the fact that this team is performance-oriented and results-oriented as opposed to process and politics, it is about results and that's what we're driving in the business.

Now, one of the core issues for the financial community I think since we announced our strategic plan last year has been this kind of sense, "Can management deliver?" Right? Because there's a lot of things we're doing so I'm not being critical. It's a real question that many of you have asked. Well, there was a lot of skepticism about the inability to build a wireless network, a broadband wireless network to differentiate. Clearly we've delivered.

There was a lot of skepticism earlier in the year by some of the media here that said, "Gee, they're behind plan on taking out head count." Clearly we're way ahead of plan. So we're trying to get facts out here, and one of the key, I think, understandings is going to be about this broader set of array of challenges that we have in a transformation plan. A lot of things happen and can this management team do everything that they say that they're going to do.

Well, one of the strategies that I believe in is you bring in the right talent to make that happen. Now, some of it is reflected with the management team that you're going to hear from, but as Greg points out a lot of it also comes from those strategic relationships that we have brought in to play.

On the IT side, where we do have risk, right? I mean, all the things that we're doing there is risk, so I'm not going to stand here and tell anybody there isn't risk. But the question is: How do you mitigate risk as a CEO of a company? And one way is your own internal talent and the second is your strategic relationships.

Well, one of the people that I've asked to come here and visit with us today is the CEO of Accenture. Now, Accenture is a company that is truly global. They have worked virtually with almost every Telco in the world in terms of transformation of certain items whether it be on their OSS side of the business, their BSS. But they've worked on about everything that we have on our agenda with some company somewhere.

And so what I thought would be helpful for all of you is to have a chance to hear from the CEO of Accenture, Bill Green. So please help me welcome Bill Green.

BILL GREEN: Thank you, Sol.

SOL TRUJILLO: Well, Bill, I want to thank you first of all for making the long trip all the way here but we have a lot of work.

BILL GREEN: Yes.

SOL TRUJILLO: And as you had the chance to see our launch this morning with our broadband wireless platform, this team is focused. Do you want to comment about this whole notion about the size, the magnitude of our transformation, and from an Accenture perspective.

BILL GREEN: Right.

SOL TRUJILLO: Because you get to deal with the whole world. What's your perspective?

BILL GREEN: Yeah, I mean, as you know, Sol, before I became the CEO I ran our telecommunications business globally so this is my passion as well as my profession. And we do work for 22 of the top 24 telecoms in the Fortune 500, and it is the biggest industry we have globally in Accenture.

So, you know, as we face off to the Telstra challenge there's some things that you face up to. You look for a management team that has the will and resolve to change. You look for the capability on the ground. And as you said to me, I want the "A" team. And that's what we put together. There is no question it's a challenge. Yet, it's proven, it's doable, and the question is just having the will and resolve and the "A" team to do it and that's what we've tried to bring to the table.

SOL TRUJILLO: Good, good. Well, Greg, you know, you're the guy that gets to deal with Accenture almost every day and when you think about the challenges, where do you see Accenture kind of bringing the most amount of talent and supplementing what we have here within the business and then ultimately helping us deliver so that when we make commitments in the financial context that they're going to show up as results?

GREG WINN: Well, you know, I think number one, Accenture being global and being the leader and their space brings talent from around the globe that has been involved in these types of transformations. Now, this transformation is different because of the breadth of it and speed with which we're doing it. But in the systems area where we're using Accenture the most as well as our training side, they're bringing the best people from around the world that have worked on projects. They've done what we're trying to do in certain slices of this transformation.

So you have people sitting at the table that can help, you know, the considerable talent we have within Telstra to say, "You know, you're about to step on a mine here. This is what's happened at these volumes at this point in time", and incredible program management capabilities to keep the project on track, on time as well as help with the knowledge transfer because of the things -- our key strategic objective -- besides transforming the business is a knowledge transfer to make sure we have the skill sets within Telstra to manage the platforms we've put in place and they're great partners at doing that even though occasionally we nudge each other.

BILL GREEN: Right. Yeah. I mean, Sol, if I could just add to that. I think, you know, one of the things that was mentioned earlier is "skin in the game", right. So when we look at Accenture, how do we align with what you're trying to get done? Alignment means everything, right. We're on the agenda. We're focused the same way. We have the same incentives. You know, skin in the game. We have serious skin in the game to make sure we execute with precision, to schedules, to cost profiles.

We have people right now from 10 countries around the world that are experts in telecom and have worked with companies all over the world that are on the ground here. There will probably be more countries represented by the time we get done, and I think the other thing that's important is we are working with you in the training space. And the key thing about a transformation is also bringing the people with you, and I think that Telstra has done that in a first-class way in terms of retooling their workforce to operate in the new world. Because at the end of the day success will be a lot about people, and I think you guys have that right on your sides.

SOL TRUJILLO: Bill, one of the things we had a chance to share with everybody this morning when Carl-Henric and I were talking about our relationship between Ericsson and Telstra, we had a lot of constant conversation about our targets, about our objectives, how we're doing, et cetera, et cetera. Do you want to comment at all in terms of as you now look at what we've now launched -- I mean, we're no longer negotiating contracts and talking about in theory what we're going to do.

BILL GREEN: Right.

SOL TRUJILLO: We're actually doing. How important is it to you to have a very forthright management team to work with that there's no -- pardon the expression -- bullshit?

BILL GREEN: Yeah, right. I mean, I think the ground rules are very clear to us, what we're trying to get done here. And we recognise there are a lot of dependencies and there's lot going on. I think the first thing that we look for is, you know, companies that have the will and resolve to change. Second, our best clients are our most demanding, and you certainly get high marks in the demanding category.

But third, is we have momentum. I think the statistics that were up on the slide from the other areas as well as the progress we've made in being on plan and executing what is a very complex set of work speaks for itself. We have the momentum.

And I'd also like the point out that the other things you're doing operationally de-risk the systems challenge. The simplification agenda, the reduction in the number of products, the clarifying in pricing, all those operational improvements have a dramatic impact on reducing the risk of what we're doing in the systems area. So we do have a challenge ahead.

I guess the other thing I'd point out is the out-of-the-box component. There are a lot of telecom companies around the world that, you know, if it wasn't invented by them, it can't be good. And I think what Telstra has done is leverage, leverage proven capability that exists so you only invent the things that you truly need and everything else you take advantage of what's already been proven and that's the thing that allows us to move much quicker on this than really any project of its size that I've ever seen.

SOL TRUJILLO: Yeah. I think that's really important. Greg, do you want to comment on kind of the instructions we've given the team here?

GREG WINN: You know, a year ago when we did investor day, we followed it with a technology day and I think I made the comment that the first programmer that wrote Custom Code was going to get shot or fired and hopefully would go to work for SingTel or one of those type companies. But, you know, and it was rhetorical. We are staying to that. You know, we showed 80-plus per cent. We're actually about 83 per cent out of box right now, and we're driving to drive that higher.

But when we say we're not, anything that we're not getting other than one area, we are adhering to our partners that are supplying the software that they will put in their product roadmap and that next release, what is custom on release day one in the next upgrade, it's going to be embedded in their core.

So Telstra will not have to maintain that code. That's the key thing. Now, if we could just do something about some of the screwball regulations and the Australia uniqueness that we have around taxation, et cetera, et cetera, we would be able to get to 100 per cent.

BILL GREEN: Yeah, I think that it's hard if you're not in the industry to understand that out-of-the-box thing. But the total cost of ownership profile over time is a night and day difference with that. Because it gives you the ability to evolve. We talked this morning about evolution of the wireless capability, speeds, and so forth. You know, this allows the company to evolve, add new products and services, you know, at just that marginal or variable cost in a very straightforward way and it lets the company's underlying infrastructure take advantage of the changes in technology on somebody else's nickel. You know; that is, software providers that are continuing to enhance the underlying products that going to use.

SOL TRUJILLO: Boy, that hits on an important principle for me which is what I call "leverage", and we leverage the simplicity. We leverage the investments of others. But one other thing that you mentioned, Bill, is around this notion of talent. You know, when you and I were talking about finalising an agreement, I said to you I wanted the "A" team.

BILL GREEN: Right.

SOL TRUJILLO: And we've already acknowledged that. But for you what does that mean and how do you make it happen in a company like yours because I'm sure most people like me are saying that to you?

BILL GREEN: Yeah, I mean, I think that, you know, we have an interesting workforce. I mean, we as a company are about helping other companies achieve high performance, and our people want to work where the action is. And so when we have telecom talent around the world, they have lots of choices, right. But people that work for us and want to work with telecom companies want to go with the people that are moving fast, that are doing the bold things, and they're going to be able to stand back and say, "I was part of that."

So the biggest leverage I have in my company in mobilising our people, other than authority is just exciting and challenging work with a senior management team that's determined to get things done with a project that has momentum already and that serves us very well.

SOL TRUJILLO: Good. I mean, to me that's very important. But one of the other things that's important that you and I talked about was the fact that, you know, I really wanted your engagement as the CEO of the company because this is so massive, so important. So how do you think about us amongst all the other contracts that your company has?

BILL GREEN: Yeah, well, I mean, we have a lot of important contracts around the world. You know, I think people bet their jobs and their companies on things we do all the time. You know, as senior executives we have an obligation to be close to it. You know, you and I have known each other, right. I made a commitment to you. I take it very personally.

SOL TRUJILLO: You're another amigo.

BILL GREEN: Yes, exactly. One of our international chairman, Diego Visconti, who would run our telecom's business, you've also got him about, you know, a speed dial away which I think is important. And at the end of the day, I mean, you make a commitment, you stand by it, and you want to be part of something special. I mean, you want to be able to look back and say, you know, "We had some role in helping them do that and that's an important thing." You know, we make the commitments. We deliver on them.

SOL TRUJILLO: Good. Well, Bill, maybe one last question and that is: As you look at what we're both about to do over the next few years – next year we have our release one which is targeted to be done by the end of '07 year and that's a big deal for us -- and you think beyond that, what's going to make you most proud when you look back and say, "Gee, we and Telstra really achieved a whole lot"?

BILL GREEN: Well, you know, I think in this day – I mean, the journey is interesting and the work is interesting. It's only the outcome that matters in the end, and that's what we're going to measure ourselves. I mean, we as a company, you know, we're a good company if we measure ourselves not by our success but by the success of our clients. And so your objectives are very clear. They're very well laid out, and we understand our role in helping you get there and that's the acid test for us. Do you get it done, and that means we've done our job.

SOL TRUJILLO: Great, great. Well, Bill, we really appreciate the relationship. We appreciate the talent. But as you say, we're really going to appreciate the results.

BILL GREEN: Right.

SOL TRUJILLO: So thank you.

BILL GREEN: Thank you.

SOL TRUJILLO: Okay. We're going to keep moving here. Now, we get a chance to introduce you to Holly Kramer and Holly is heading up our products group and Holly is going to give us a view of how

all of this is coming to life in terms of this integrated view and how we're delivering it on to our products as we evolve not only NEXT G but everything else in the business. Holly? Please help me welcome Holly Kramer.

HOLLY KRAMER: Good afternoon. As Sol said, I am now going to talk about how we're leveraging these world-class network and IT assets that you've just heard all about to create sustainable and powerful competitive advantage in our products and services. It's products and services that ring the cash register after all.

But what I want to do first is just reiterate a little bit what Sol and Greg have both alluded to in terms of the context of what services and products actually look like in today's world. You heard Greg talk about earlier the fact that, you know, in the past we built these discrete high investment communication products, so you'd put one sort of big platform in and then you'd have to launch it to a mass market and hope that it had mass volumes so that you could generate returns on that investment.

Today we're doing things differently. We're building scalable platforms that let us bring new products to market quickly, and what we do is we differentiate them on those platforms for multiple customer segments. We'll hear a lot more about the requirements that we're learning from our customers in the future so we can differentiate for them, and we can also integrate the world of content and web services into our traditional telecommunications so that it creates a powerful new set of capabilities that we can deliver to our customers like some of the ones that we're going to be launching or that we are launching today on the Next G wireless network. I'll get to those in just a moment.

But first I want to start with the building blocks of Telstra's competitive advantage in this new world. So we start first with our world-class network footprint. It provides Telstra with the biggest reach, the fastest speeds, and the best reliability for all Australians. We then layer on top of that our unique branded assets. Few, if any companies in the entire world, can match our lineup which includes a market-leading ISP, a pay TV, and directories business to complement or world-class telecommunications services.

Now, everyone knows that customers rely on trusted brands, so this gives us a very strong platform from which to expand into new markets and new segments. We then add a roadmap of integrated products and services that will work seamlessly across our platforms and networks. Now, our data shows that customers who hold multiple Telstra services are more satisfied and they're less likely to churn. But we're aiming to make this relationship even stronger with our customers as we offer them enhanced services that can be accessed with even greater functionality across any of their services with Telstra.

And finally, the fourth part of our competitive advantage is the way that we deliver real value to our customers and we drive ARPU from our customers by making the products easy -- easy to find, easy to set up, easy to use, and easy to share with others.

So now let's take a look at what this means in relation to the new NEXT G wireless network. So with the new network comes new and exclusive devices. They give you one-click access to new FOXTEL TV service and the BigPond content portal. And with the dedicated Telstra button you're actually just one click away from a simple menu that features all of Telstra's exciting services.

You've heard a bit about the menu today. Let's dive into the menu and see what these services actually look like. First, we have -- well, we have FOXTEL TV and we've just skipped to the blog, so I'll go through the blog. Guys, how you going back there? A little technical... I knew this would pale in comparison so I'm fine here.

In terms of the blog, we've got a blog service that basically allows customers to go in with one simple click, register for their blog, view their blog, post photos, post comments, or, in fact, go in and look at someone else's blog. We've got downloads. Let's see... I'll ad lib here. So downloads. Downloads basically are one of the largest drivers today -- very, very popular. Every person under 30 in this country has probably customised their mobile phones so downloads are basically one of the strongest sources of revenue drivers.

There's a specific dedicated site within the portal. We refresh constantly with new ring tones, new music, new movie trailers, information not just the old 2G world but also 3G world. Music tracks, music videos, movie trailers as I said with the opportunity to just go in with a click of one button and see fresh new content all the time.

Next we've got -- yes, we're back to FOXTEL. So FOXTEL, I just wonder if we should -- do you want me to try to get this running properly and we'll come back or should we just... okay.

All right. So what we've got is we've got the FOXTEL service. It's one click from the menu. You can see the FOXTEL button on there. One click into the FOXTEL service for $12 a month, 12 channels -- 12 of FOXTELs most popular channels. Our previous trials of mobile TV, we've been running DVBH trial which is again mobile TV to the device, and what that's shown us is that customers do love to watch their favourite programs when they're out and about. It's a great way to kill time. It's also a way to catch up on the latest news if you happen to be out and working late.

So we've got FOXTEL and blogs and we've also got the BigPond music player. Only with Telstra do you have mobile access to BigPond music store where you can preview, buy, and listen to your music tracks or caller tones. And only with Telstra you can download them both to your mobile and to your PC.

Most of our new devices also have the BigPond music player built right into them so when you're on your mobile, you're just one click away from all your music collection at all times.

We've talked a bit about downloads. We also have exclusive with Telstra "Whereis". With Whereis -- you've heard again previously today that you can establish your location preference on the phone and the phone then automatically gets you maps and directions to nearby bars, restaurants, or anything else that you're looking for. There's also the capability to save them directly into your favourites so you can one click to call, one click to maps, one click to directions anytime. And getting access to e-mails has just gotten easier. After you have logged in once, you are just one click away from BigPond e-mails.

You can send and receive e-mails any time, anywhere. Our research has found that amongst many of our customer segments e-mail is actually the most desirable of all mobile services, and what we have done today is we have just made it easier to use.

It is not all about new services, though. It is actually all about customer service as well. With the new "my place" menu we even provide one click access to your account details. So customers now have the freedom to go in and try the new services with confidence that they are not going to blow their budget along the way.

You never know when you are going to need to search for something, or anything in fact. Now with Sensis Search exclusively on your Telstra mobile you can search Yellow, White, Trading Post, City Search and the worldwide web. Again, don't forget that once you have set your location you can get search results in your area. So if you are searching for a 1998 Holden, you are not going to bring up 102 listings in Perth and Darwin that are totally irrelevant to your search. So again that location capability linked in to the power of web services creates new and really truly differentiated services.

So hopefully that gives you a bit of a feel for what we are bringing to market today: true mobile broadband on a handset with a plethora of new and innovative services. But that is just one device. With the power and speed of the new network, the humble laptop also becomes fairly sexy. With new BigPond and Telstra wireless broadband cards our customers can now get connected and stay connected at true broadband speeds in more places than ever before.

So let's go back for a moment to the conversation about Telstra's competitive advantage. We have obviously taken a big leap forward today with the introduction of the wireless network and services. But the power of Telstra is to extend all those services to all of our customer devices. So information, communication and entertainment are now truly platform agnostic.

So let's take a look at what this means for customers today and also in the not so distant future. Today only at Telstra you can send a text from your home phone to a mobile phone. You can also send a text from a laptop to a mobile phone. Before long, you will be able to send text to the television set at home as well, if you want to consider buying milk while you are watching the Da Vinci Code.

Today of course you can make a video call from your mobile to your mobile or you can make one from your mobile to your laptop. Before long, however, you will also be able to make video calls to your home phone as well, only with Telstra. Now with Telstra, as you just heard me say a few minutes ago, you can download music to a PC and to a mobile. You can also be wirelessly connected to a laptop. So, again, you can listen to your favourite music wherever, whenever and however you want.

So, we all love to take photos on your cameras or I guess it is your phones these days. Now you can send those photos directly to your on-line photo album. When you are on-line, you can view them, you can store them, you can share them with other people. You can send them back to your mobile, view them from your mobile, send a note to your friends and have your friends go in and view them on line as well.

But it is really digital entertainment that you have heard that is the growth industry of the next decade. Today you can watch TV on your TV of course and through BigPond TV you can watch it on your PC. But now with Foxtel and Telstra you can also watch TV on your mobile as well; one simple click from the "my place" menu into 12 of your most popular channels.

It won't be long, however, before your mobile becomes your virtual remote control where you can program what you want to watch, when you want to watch it remotely from your mobile to your Foxtel IQ box at home. But that's only with Telstra.

In each of these cases customers are getting more and more value from their Telstra services and we are generating ARPU. With each additional message you can send to more devices with each additional subscription, purchase or click. In fact just in the last few minutes alone I have clicked up an incremental $18 of ARPU. So I think I will move on before I spend any more.

Now, our customers mostly lead double lives, as do we all, one at home and another at work. So we are building these integrated experiences into our business customer services as well. Today with just one click calling to one number, and that's any number that you choose, you can make sure that you are found if you are off with your mobile or you are at your home office or if you don't want to be found at all. If that's the case, you will soon be able to divert all your messages to a single mailbox that you can access from any of those devices wherever you are. You can even call in and have them read back to you if you are all tied up. You will be able to soon.

Now, with videoconferencing from your mobile, you can collaborate with your colleagues. You can bring people together from different locations and different devices. On the new Next G Network that means you can videoconference from virtually anywhere in Australia to anyone in Australia today. But that's only with Telstra.

If it is an urgent matter, you can contact all of your staff instantly and simultaneously with the push of one button. You can leave a message or you can send a text. Speaking of text, you can also send them a text straight from your desktop with one click to customers, to staff or to virtually anyone with a mobile device. Businesses are truly embracing these technologies as an efficient, cost-effective way for them to make and confirm appointments, assign jobs or communicate to suppliers.

Better still, with the range of new application partners on board, Telstra can now help businesses manage their work force more productively through real-time access to customer data, service schedules or even maps and directions any time from anywhere.

But, as I said before, the new world of products and services is only as good as it is easy to use. Unless the world happens to be taken over tomorrow by all of your 14-year-old kids, our true advantage is going to be the way we actually drive revenue by making our products and services easier to use.

You heard Sol say last year and you heard him again today talk about one click. Well, we have the job of designing one click into the way customers experience every single one of our products. We have made some great progress, but we are really only just beginning. As we move forward we will be using

customer data to personalise individual services so you need fewer and fewer clicks to get to the services that you actually know and love. Through an extensive program of customer research, we are learning how different segments use the same services differently so we can customise and tailor standard products so they better meet the needs of different individual customers.

Finally, through the discipline of user centred design we can provide more consistent experience across all our products. So there are even more reasons to have all of your services with Telstra.

Now, each of the services that you have seen today will continue to evolve, they will become more intuitive with better functionality over time. As you heard Sol say, we are making progress but we still have a long way to go. How we are doing that, we are investing in the people, the technology and the processes that are going to ensure that after all these years we actually are making life easier for our customers.

Now, one really good example of how we are doing this for the Next G launch is with interactive video tutorials. Each new customer just after they have gotten their new service will receive a video call from Telstra with a step-by-step guide on how to use each of the nine services in "my place". They can look at it then or they can call back any time, go through the nine services at their leisure to get more information when they need it. Early indication is that that kind of innovative approach to user experience will result not only in more satisfied customers but in greater usage of the services as well.

So, to summarise, we have been building competitive advantage for Telstra over the past year. We think we have taken a big leap forward with the launch of the Next G Network and services, and we will continue to get better and better as we simplify, innovate and deliver on the transformation of the company that is under way. This combination now of assets, network assets, world-class brands, integrated products and user centred design create a powerful combination that is at the core of our product strategy that will help create and sustain competitive advantage for Telstra. Thank you.

SOL TRUJILLO: Very quickly, Holly hopefully brought to life the idea of ARPU. We are not doing all this technology and all this integration and all these other things just for the sake of it. It really is about drawing revenue per customer. So the next conversation that we are going to have is with Bill Stewart, who is going to talk about how we are driving the knowledge behind what we are doing and how we want to transform the company and how we have already begun doing it as a business.

BILL STEWART: Good afternoon. It's great to be here. It is almost a year since I was here talking to you about market based management and what it is, why it is important and how we are implementing it. I'm here today to update you on what we have done so far and the dramatic impacts we are having.

As we said last year as a team, we have done market based management and customer segmentation on three continents and it is a pleasure to report that the results we are seeing here at Telstra are better than anything I have seen anywhere else in the world. Though still early, we have started using our customer segmentation in a number of channel programs. Today on average these programs are experiencing a 74 per cent uplift in our sales success rate and the number is still rising. When you consider that we make 14 million customer sales contacts per year, this is a very big number. More on this later.

But, first, let's review what we told you last investor day. Last investor day, Sol told you that market based management was one of the cornerstones of the new Telstra strategy. Why? Because market based management drives revenue without increasing expenses. Market based management lifts earnings and it makes the business more efficient and more effective.

Last year we told you we were putting the customer at the centre of everything we do: how we will organise, how we will measure success and hold people accountable, how we will innovate and how we will build a unique customer experience. We told you we would be focused on three critical areas: improving market share, especially in mobile and broadband; increasing ARPU; and improving customer loyalty and reducing churn. This is how we measure success because market share, ARPU and customer retention drive margins.

We told you last year we would be developing customer databases, as the chart we showed you last year on the far right. We would be using those to develop campaign management systems and CRM and that we would be executing in the channel. Finally, we said we would be building measurement systems that focus on our success with customers, not products. Let's see how we have done so far.

First, there is no doubt we have developed a more intimate understanding of our customers than any other company in the industry. As you will see on a future slide, this fact alone with dramatic operating improvements is driving significant results. How have we gotten there? Over the past year we have conducted 146 market research projects encompassing over 400,000 customer interviews, 90,000 of which were specifically focused on understanding the needs of our customer segments.

As David and Deena will tell you later, we have reorganised our business units around seven consumer and five business segments, and have brought in strong new marketing leadership. Each of the segment leads we have put in place has developed their own teams to drive every aspect of the marketing mix.

We have implemented the Telstra marketing academy. To date 180 managers and consumer and business marketing positions have completed multiple specially designed marketing courses from marketing academies. Today phase 2 of the academy is under way and in it we are training 1,100 additional people in the marketing sciences. Over the next few years we will complete training of over 26,000 employees on marketing and our customer segments and their needs.

In the product area, as Holly mentioned, we have developed a new market research process to put customer insight into every step of our new product development process. This is being applied to over 170 initiatives currently under feasibility study. Starting last April, we began to focus our advertising investment on specific customer segments. Let's take a look.

(Advertisement shown).

The next ad is targeted at the sandwich generation taking care of parents as well as children.

(Advertisement shown).

This next spot is for the youth. Chris in the shot is actually a customer of Telstra's.

(Advertisement shown).

This is a business ad for small businesses that are family run.

(Advertisement shown).

Finally to our entrepreneurs who are striving to grow and become big businesses.

(Advertisement shown).

If you don't recognise some of these spots, it means you haven't been watching the highly targeted media used to reach the intended segment. For example, unless you are a loyal fan of Australian Idol, Video Hits, the Simpsons or MTV, you may not have seen our ads targeted at our fashion, fun and friends segment. This targeting has resulted in a 25 to 60 per cent improvement in cost effectiveness in our major campaigns.

In our channels, 121 Telstra shops are being introduced or upgraded with market based management segment enhancements and we have implemented segment based programs covering 40 per cent of our annual customer contracts, but more about that later.

We have also been busy developing customer databases and systems. Our customer analytical environment now provides a single view of our customers, and our operations databases are fully tagged with segment identifiers to support segmented outbound calling and direct mail campaigns.

This week we started acceptance testing on our new Siebel automatic campaign management system. In August, phase 1 of our PARS system went into place which brings together customer and product data for fixed and mobile services for the first time. This allows us to track our performance at the customer segment level as well as product performance.

But none of this means anything unless it demonstrates a tangible financial result. So let's take a look. As soon as we finalised our customer segment tagging and put segmented customer lists into the hands of our sales people and our customer service reps, the results were immediate. Just giving sales people a segmented list where all the customers on that list that they were contacting had very similar needs resulted in a significant uplift in productivity. Objections to a sale were the same, and our reps soon got very good at responding to them.

As we added words that work based on our in-depth research, varied our calling patterns and otherwise focused our sales efforts, we saw even greater uplift. Today we have rolled out MBM sales techniques in eight of our customer sales programs representing 5 million of our 14 million annual customer contacts. Although it is still immature, we are seeing an average uplift of 74 per cent. This means that our customer success rate, our contact success rate, has risen to 19 per cent versus our prior historical average of 11 per cent. This is an incremental 8 per cent against 5 million annual contacts or roughly 400,000 incremental successful contacts.

Some of these successes are improvements in our customer relations, like putting someone on the right price plan, while at least 200,000 of these are quantifiable new sales, cross-sales or result in retaining a customer. At between $50 to $60 per month in revenue, you can do the math to project the revenue impacts.

On the cost side, although still early, our broadband sales program, the costs per acquisition has reduced by 35 per cent. As our implementation of market based management programs become more mature, we believe that this uplift will improve to an overall average of 10 to 12 per cent. Further, by the end of the year we are expanding these programs to include additional programs that represent over 10 million in annual contacts. Again, you can do the math to understand the revenue impacts. I will turn it again back to Sol. Thank you very much.

SOL TRUJILLO: Do you know what? Bill said last year you have now seen taking hold within the business, and obviously it is all for a purpose and it is all about efficiency of our costs, of our management and ultimately the relationship we have with our customers. So I like thinking about it in terms of Bill has built the framework, he has helped us in terms of our implementation, all the work that leads over in terms of handing it over to David Moffatt in this case now, who heads up our consumer business, who is now really taking it to the streets. David.

DAVID MOFFATT: It is great to be here with you. Thanks, Sol. The early press doesn't look too bad, Sol. That is from a youth magazine. So well done those guys.

Anyway, it is great to be here to share just how we are turning our business strategy into results. I like to talk about it with our teams as concepts to cashflow, and that is the theme about taking it to the streets. In August we shared some progress about how we were going. What I'm now about to confirm is that those positive results have continued in the first two months of this financial year.

Our business model is working, our people are excited and with new networks, new products and new ways of getting integrated services with Telstra, our customers are getting more value from us than ever before. Two months into the financial year, mobile revenues are up 10 per cent. Over 120,000 consumer customers have signed on to our PSTN subscription plans. Net PSTN churn is 60 per cent less than for the same period last year. Total 3G mobile and wireless broadband customers have grown 50 per cent to 623,000. So it has been a solid first two months, but we know we have a lot more to do.

We have a consistent focus. Last year I followed this framework to share what we were going to do to grow, and obviously today I'm going to use this framework again in demonstrating what we have actually achieved.

We are adding more 3G customers at a faster rate than any competitor, and we are committed to being

the market leader in 3G by this coming May. 3G customers spend more, they use more data services - on average about $20 more a month than a 2G post-paid customer - and they are three times as likely to access BigPond mobile services. So, as we said in August, our subscriber acquisition costs are $100 less than our major 3G competitor, and in the two months year to date 2G subscriber acquisition costs fell $21, prepaid fell $17 and blended are up a modest $8 on quarter 4. This investment is less than half of one month's incremental revenue from these new 3G customers. Let's not forget, as Greg said before in case you missed it, our new technology operates at a much lower unit cost.

More 3G customers and more integrated wireless, mobile and internet services delivered in a segmented way do drive more data usage. In the past year we have doubled the monthly volumes of MMS, a rate that we do expect to increase now, as Holly has demonstrated, some of the integration of things like the big blog, where you will be able to post your photos and text at three to five times faster; our BigPond music I'm sure Justin will also refer to as well where they can do these simultaneous downloads from the PC and the mobile for the one price.

Also growing broadband, accelerating our narrow band to broadband migration. Today nearly two-thirds of our internet customers are using Telstra broadband and over three-quarters have integrated these services with their core PSTN needs. In addition, we are adding more broadband SIOs or subscribers than any other competitor in the marketplace, and more customers are taking these services as an integrated package. All of this is helping us to achieve the results that I mentioned about slowing PSTN decline and churn particularly.

By understanding our customer needs better, and Bill's segmentation has been fantastic here, we have been able to drive more multi-product penetration. Not only are customers enjoying more integrated customer experience from us, but multi-product customers churn less. In the period from June 2005 to the end of August this year we have increased the number of consumer customers that have got two products by 10 per cent, three products by 40 per cent and four products by 50 per cent. Now, specifically, Telstra customers who bundle mobile, fixed and internet are half as likely to churn as a customer who has got a mobile only product.

We know that to build an excellent customer experience we also have to keep on investing in our people and providing them with the tools that they need to deliver world-class customer service. So by mid-November all of our customer contact centre staff will actually have the knowledge and the information to deliver a segment specific customer experience. This is just a huge step forward for our customers and also for our people at front of house.

So far this year close to one-third of our customers have rated our consultants as delivering a better experience than last year. That is just a massive shift. When you consider that our total interactions are 92 million customer interactions per year, you get some sense of the size of that sample.

What we have also done is that eight out of 10 of our employees in the shops, the inbound and the outbound call centres, are now on incentive based pay linked to our key commitments.

Self-service transformation is our next big game changer. We are going to improve the user experience whilst also at the same time reducing our customer service cost base. Our results over the last year show that we have doubled the number of customers registering for on-line services each month. If that is an indication of demand before we get into transformation, I think the future is very bright indeed for managing costs and improving the customer experience.

So how are we actually improving our operations and delivering on this customer experience simultaneously? Well, sustainable growth does require a consistent approach. It is a focused execution approach as well. We are using this three dimensional model to achieve customer led growth. This framework integrates how we seek to understand customer needs, deliver on their expectations and develop new capabilities while also driving productivity.

It is possible to grow revenues and to improve cost efficiencies. For example, the combination of performance based management, the way we run our sales channels and our centres, and market based management is in driving improvements and vast improvements in something that Bill said, which was strike rates. This is not the number of hits on Sol in the media. This is actually saying, "What is the ratio of customers or prospective customers that we contact to those who actually buy a service?" It is about lowering the cost of acquisition. So, for example, our strike rates in narrow band to broadband campaign have improved by a third. These are massive for anybody who understands the sort of sales channels in detail. So that means a per saving of per acquisition of $25.

Now, our design foundation, for our consumers we have completed the design phase, the consumer part of the organisation, and that is the development of our organisation and processes based on market based management. We have also gained a lot better understanding of our customers' values and needs through the research that Bill talked about: nearly 90,000 total interviews, and about 57,000 of those were consumer. This is clearly the most comprehensive survey ever undertaken in the country related to this kind of activity.

As a result, we have restructured and rebuilt our organisation. We have seven fully accountable segments, and you saw how our marketing teams are driving those particular ads that you saw before that Bill shared with you to actually target the individuals concerned and lower our operating costs in doing so.

We are also taking that knowledge right into the channels. So the delivery phase is actually about retaining and retraining and investing in our people to provide tailored offers and a very personalised approach. Of course, we will deliver these offers to our customers through the most comprehensive, direct and indirect sales channel in the industry.

So, for example, by calling our customers at a time of day that suits their segment profile, we have improved the contact rates, the rates in which we connect with a customer. On one campaign we are contacting on average 10,000 more customers every month for exactly the same investment. You will have noticed our shops starting to look a lot fresher and a lot more exciting as we start to take this themed visual merchandising into our channels.

In addition, many of our shops are actually analysing the preferred shopping times of different

segments through the month, through the week and through the time of day. They are registering specialist sale staff on at appropriate times. This is doing two things: it is a better customer experience and it is lower cost.

The development of capabilities is about measuring and improving everything against the expectations of the customer. Our commitment is to develop our people and their capabilities. This is obviously going to be a key pillar in terms of long-term and sustainable revenue and profit growth. So, for example, we are investing $20 million in this marketing techniques, marketing academy and it includes customer profitability training and financial metrics to understand the impact of marketing all the way through the P&L.

Relying on what was good kind of yesterday just won't cut it in today's rapidly changing environment and marketplace. So we just have to develop world-class capabilities that can underpin these two goals that I have talked about about more revenue and greater productivity.

Now, only Telstra is investing in the research and the quantum of research, the organizational model, the systems, the training, the channel capacity and capabilities which is all designed to deliver, you know, very different and very integrated customer experience taking advantage of all the stuff that Holly talked about.

And here's what that actually looks like. It's about giving our customers choice, a choice relative to our competitors, segmented offers to suit individual customers all under the Telstra brand. For example, the TicTalk phone helps parents stay in touch with their children while staying in control of who the child can call. This is clearly a great value proposition from Telstra and for our Telstra customers because it's provisioned from a simple Telstra web portal, so you can see how that integration is coming together.

In addition there's educational games from LeapFrog and these have been endorsed by Mothers Inc. and Parents Association of Victoria. Our segmented PSTN offers like HomeLine Ultimate drive new acquisition and reduce churn. Almost a quarter of the Ultimate customers are new to Telstra, and they are higher valued than our migrated base. Furthermore, close to a quarter of all the Ultimate customers are spending more than a $150 so much more than the baseline ARPU that is included in the plan.

And more importantly, I guess there's more of them sticking with us. In August this year 19,000 more of our customers chose to stay with Telstra compared to the same time last year reflecting the enormous success of these plans. We're taking market-based management techniques right into the channels. In our inbound call centres, a popup screen provides a customer service team with information about each customer, the segment they're in, and the profile of that individual segment.

This determines the "how" of the way they communicate with the customer reflecting a greater confidence in the interaction and a greater understanding of the customer. Our outbound call centres now ensure that we call customers at a time of day that suits them. And if we also use a target approach in the offer according to that particular segment profile, we've seen strike rate uplifts of between 30 and 100 per cent and as Bill said 75 per cent on one campaign which was a big campaign. *[please note that Bill Stewart is referred to an average uplift of 74% across campaigns]*

We're expanding our branded shop network this year by 70 new stores, and we're also improving the supply chain that Greg talked about and we've enabled more service integration in these devices. This gives the store staff the time to actually spend talking with the customer and demonstrating the applications to enable a customer to actually walk out using the device rather than just carrying the phone in a bag.

Now, every shop licensee and dealer – Telstra dealer -- will get the benefit of this integration. So you might be thinking why would you do 70 new branded stores? Well, we'll accomplish two things if we do this. The first is that this will fill key geographic gaps and will drive effectiveness and efficiency because branded stores are approximately four times as effective at connecting postpaid customers compared to an indirect channel.

This week, for example, we've opened stores in Toowoomba, in Randwick, in Bingley, in Pacific Fair, Bankstown. And next week we're opening stores in Castle Hill, Mount Gravatt, Noosaville, and Chermside. Exactly what you're seeing on the network side, you're seeing it front of house. Only Telstra has the commitment and the capability to take a national as well as a localised approach.

And local area marketing is our geographic approach to taking these segment-based offers to the streets and it's clearly working. By addressing the different needs of a particular community and building offers that are exclusive to even particular suburbs, we can build a relationship with that community and grow our revenues.

In Sydney, we've recently provided a high speed cable broadband bundles to seven Sydney suburbs. We targeted 76,000 households with 5 separate campaigns. In addition, in less than 12 months, the local area marketing combined with this targeted approach has helped improve our market shares three points in prepaid, three points in postpaid, and three points in fixed line. *(please note the three point increase should only refer to prepaid and postpaid and not fixed line)*

In Canberra, we got positive net access churn in August, so we're just fighting back everywhere. And Telstra Country Wide uses their local presence, local knowledge, local solutions to deliver growth. They are not only a dynamic sales team, but they are very commercially focused and they are the face of Telstra in every community.

And if we look at what they're doing, area general managers have driven the roll-out of broadband in regional areas, and in 12 months to June '06 TCW accounted for two out of three of our retail broadband sales which is just a terrific result and they're reducing churn.

In Wollongong, a TCW town meeting got 300 folks that came along to hear all about what Telstra is doing, generated directly a 100,000 in incremental sales, and between now and October they've got roadshows planned in Newcastle, Cairns, Shepparton, Traralgon, and Dubbo. So as the BigPond ad says they've been everywhere, man.

In terms of integration, today's launch definitely confirms that consumers can expect fully integrated exclusive experiences and only with Telstra and all at the touch of one button. Next G is a huge opportunity to grow new Telstra and to grow new Telstra customers and revenues, and it's all about improving data and improving the usage and the flexibility for our customers.

Over the coming quarters, we will be releasing -- and even days -- we will be releasing a range of exclusive content, innovative, interactive features, and functionality. As you have seen today, we are executing on a framework, a framework for operational excellence. We are meeting the needs of individual customers in a very competitive market. Through compelling segmented and highly targeted offers, we will continue to succeed in doing for our customers what no one else has done. That's creating a world of one click, one touch, one button, one-step solutions.

So we've got a clear vision, great momentum, and a sustainable business model for profitable growth. Thanks, Sol.

SOL TRUJILLO: Thank you. Again as David has shown, we are taking it to the streets. It's showing up in the marketplace and the key thing is is that we are attacking each of the core levers that we have in the business and that is in the customer segment.

Well, now we have a chance to hear about our small medium enterprise segment, as we call it -- Telstra business, which I'd like to welcome and ask all of you to help me welcome Deena Shiff.

DEENA SHIFF: Thanks, Sol. I've been given the opportunity in Telstra to reclaim a set of customers some 700,000 of them who weren't getting the attention that they deserved.

Telstra business has been in operation now for only eight months really and the senior leadership team around me and the organisational structure has only been in place since July. But our genuine passion is to play to the differing needs of our business customers and to really serve them in ways that our competitors can only aspire to.

Our customer base is really varied. Within our five segments you will find businesses who hunger for technology to drive their growth, enabling them to be part of the online community as well as small firms who cling to old ways but could be a whole lot more productive. What these customers by and large have in common is a desire for business communications to be made really easy.

They are generally not firms with an IT person on board or a CIO. In fact, 80 per cent of our customers have less than eight employees, so they don't have a lot of time to bulk together components or to spend time fixing things.

When we assembled our SME customers from around Telstra, what we found was that the businesses who had been served in the mass channels weren't really being treated as businesses at all. Service disaffection was a significant cause of churn. We lacked offerings for business customers. We sold product by product, and there is a lot of disaffection associated with that because the handover from one part of Telstra to another was not a pleasant experience.

Yet we had a customer relationship with most of the addressable SME market in Australia. The fact that 60 per cent of our customers only have PSTN with us, we now see as our opportunity to cross-sell and upsell. Soo to is the fact that there's so little data usage in our business mobile revenues. Yet between Q2 last year and Q1 this year, we grew mobiles data SIOs on 3G by three times, admittedly from a very low base, so this clearly extraordinary untapped business demand for 3G wireless devices and laptops that are broadband capable. In fact, to use a really unfortunate analogy, the orders today are pouring in, in our business channels for 850 phones. We think we will sell by the end of today more than we thought we would sell in a month, so we're clearly turning around a part of the business which has the potential to do a whole lot more.

So let me tell you where we've come from, what we've done to date, and how we're going to deliver on this promise. Where have we come from? There's a very high dependence on fixed-voice revenues in this space, 60 per cent of 3.1 billion in revenues and significant erosion of these revenues from churn and from core loss.

Last year the PSTN revenues declined with this space nearly 9 per cent on the previous year. Growth in mobiles was around 9 per cent, however -- and that partially masked this -- but it still resulted in an end-of-year outcome of minus 1.5 per cent year on year.

In the first two months of this financial year, we see a slight improvement on the rate of decline of

PSTN in comparison to the prior corresponding period and some encouraging early inroads into churn which is around 40 per cent that of the prior corresponding period.

However, mobile's growth has subsided to SME market growth levels of about 6.5 per cent in comparison to the levels that were enjoyed last year when arguably the competitive focus was less intense. But to put this in perspective, every one per cent improvement in PSTN is worth nearly 16 million. Every percentage improvement in mobile's growth restores 9 million. And our mobiles and broadband initiatives can't be expected to show their full potential until H2 given the timing of the release into the market of our new offerings, which I'll talk to you about shortly.

So what's been the program for change? The tools that now underpin our approach to sales and marketing are much as those described by Bill and David -- needs-based research into our customer segments, better tagging of our customers in our systems, improving sales process with regard to recontracting, and performance metrics and reporting all of which lead to better targeting and sales effectiveness as David has proven.

But along side this, our urgent task was to rebuild the fundamentals of this business, to create the basic offers for different segments, and fill the shelves with business suitable offerings that we had simply failed to offer. Notably in the business broadband mid-market, we didn't have an offering and our broadband share for SME has slumped 25 to 30 per cent, so competitors have filled that space.

We also had to remove service pain points which were clearly driving churn and dedicate and train channels to serve business customers as businesses according to their needs.

So what have we been up to? In contrast to our competitors in relation to offers and solutions who treat SME customers pretty much as one size fits all, we have created a range of building block offerings which will appeal to different types of customers by segments and as I said before this is a very diverse market, in fact.

We've since July released a menu of subscription pricing plans for both PSTN and mobiles to create choice and price certainty according to the differing needs of business. Indeed the PSTN's business subscription pricing plans that we put out in July and probably better marketing execution have meant that our acquisition strike rates just in that short period have doubled.

We've introduced phone systems, voice and data bundles for smaller businesses, a new suite of business broadband products which will be introduced into the market from November will set a new standard for packaging of components and are crafted so that different types of businesses can select the package that suits their needs.

We're creating in addition a portfolio of solutions and applications. So with the new business broadband, you might choose a business support pack which will provide onsite land setup and pay-as-you-go maintenance services. And then there's business online which gives business the tools to build and manage a website to conduct business online.

A solution we've recently launched is Business Secure which sits on our business broadband line and offers building alarms and video surveillance popular with petrol stations, pharmacies, and jewellers for obvious reasons.

The fact that we can now offer a genuinely comparable experience out of doors as in the office with the next generation network is extraordinarily relevant to small business. If you've got less than ten employees, you're not sitting in the office all day; you are out and about. You are in the factory, in the field, on site. So your whole working life needs to be seamless between the office and outdoors.

Take the example of an independent builder property developer. His phone will now work reliably when he's in the building, building things. If he's missing a tradesman because his plastering electrician didn't turn up, he can use our new workforce management application ZORA to figure out where he is and tell him to get the hell over here because the plastering needs to be done.

When he's in the street talking to a prospective purchaser of the property, he can use the same device to download the strata title plan or to compare it visually to another property in the street or to use Sensis to show the amenities of the local area. This has the same functionality and capability as if he was in an office taking it off a PC. Moreover, his e-mail, his calendar, and his applications will synchronise with the office. So quite a meaningful development for small business, let me tell you.

So let me give you an example of how this comes together. Picture a business really on the move. This customer likes to go online or have someone at the end of the phone who gets it. He calls 1-800-BUSINESS. We can identify his general requirements in our system now. We can select his fixed wireless and broadband requirements. These are preconfigured and can be delivered for self-installment.

Add-ons might include the Advanced Business Online pack which comprises website management tools as well as directory and online services from Sensis, all this on a single bill and from a single supplier. In short, we'll now offer what our competitors only aspire to -- a one-stop shop for business solutions that are tailored to particular business segments that we will offer via mass channels.

So let me talk about channels. In July, we cut over eight contact and service centres to Telstra business and dedicated them to serving business customers. Any business customer can now ring a single number, 1-800-BUSINESS, and speak to a business sales consultant. In fact, the business contact centre was the first channel to record a sale of 850 today, so I'm really proud of them.

By the end of this quarter we'll have outposted 100 business sales consultants to stores and trained shop staff in business sales. We're introducing business pods into shops heavily frequented by business and establishing predominantly business stores. We've extended our sales force account management and coverage, and we've more than doubled the number of customers with assigned sales contacts.

In December, we'll turn on an online channel telstra.com/business which will create a self-service environment for business so our customers can browse, shop with us, buy, or report service issues online, something that's much needed by time-poor customers.

In addition, we are retraining or accrediting selected dealers and creating new channels to support next generation IP solutions for SME. Today I am pleased to announce an agreement with Express Data. This will introduce nearly 2,000 data or accredited IT channel partners to support our new IP base solutions.

This agreement supplements arrangements with IBM and other IT vendors such as HP and Minova to use their IT distribution channels for our business solutions such as wireless laptop broadband services.

We see the improvement of our customer experience as a key part of our performance and an opportunity to engage with our customers on their terms. Realising service was a pain point with our customers, we've reduced infuriating transfers with a 50 per cent reduction in handoffs between May and September. We're seeing improvements in first-call resolution and abandonment rates of half. That's when you just give up and hang up.

Fourteen per cent of businesses have moved locations, left us as a result of the experience. We have introduced as a preventative measure case management of all complex business relocations or upgrades. That doesn't mean you are a large complex business; it means you can be small and just have a bunch of lines and a bunch of products that need co-ordinating.

Case management also reduces multiple truckrolls for ADSL and PSTN. It's costly for us but it's also a time waster for our customers. We're also creating services which are easier to install and support, and our new business broadband offering will come with a 24/7, troubleshooting help desk.

Finally, we'll be requiring all our channel partners who sell or service on our behalf to fulfill our accreditation requirements, not only in relation to technical skill in the managing of a whole of customer relationship but also to meet our required service experience standards.

So how will we track all of this? Well, to reverse the revenue decline, we aim to slow PSTN rate of decline by 40 per cent compared to '05-'06, to grow mobile and broadband above SME market growth rates, and to grow multiple product customers from 40 per cent to 70 percent by June 2009.

To build the platform for growth we aim to grow 3G as a proportion of total mobile subscribers from 3 per cent in '05-'06 to more than 60 per cent by June '09 and to grow the percentage of customers with broadband and IP from 25 per cent in '05-'06 to more than 50 per cent by June '09. And to rebalance revenue from old to new, we aim to grow the proportion of non-fixed voice revenue from 40 per cent in '05-'06 to more than 60 per cent in '08-'09.

Despite our progress to date, we have much to do to enable and train channel and sales staff, to harness the full potential of a multi-channel distribution engine for a business-mass market, and to better manage business customers' experience in those channels.

However, I believe we have made progress in establishing a beachhead beyond our competitors' range of offers and capabilities. By crafting business offers to business segments, by creating integrated, well-supported, next generation business solutions, not products bolted together by systems integrators which is the prevailing standard and by bringing to life more distribution than any one competitor that's dedicated to servicing the needs of business customers.

So, Sol, I think we really are now open for business.

SOL TRUJILLO: Great. Thank you, Deena.

Now, obviously you saw from David that, you know, traction really started about the last quarter of our last fiscal year and now the momentum is continuing. Now, you see with Deena the fact that traction is now starting in terms of the SME segment of the marketplace and there's more to come. Now, our job is basically to enable a lot of things to happen within the business.

Well, one area where we've had traction already starting for more than a year is in our enterprise segment of the marketplace, and David Thodey has been working that transformation now for a couple of years. So, David, why don't you give us some updates. And while David is coming up here, the growth rates we went positive in the year which as I understand it is probably the first time in this segment of the marketplace for Telstra for the first time in about ten years. So, David, it's all yours.

DAVID THODEY: Thanks, Sol. Thank you. Well, good afternoon. I know you've all been waiting for this section, right? Enterprise and government. It's always the most exciting bit. I see John tries to convince me that it is finance but I know better.

What I want to go through this afternoon is to give you a sense of how we've gone over the last 12 months in the enterprise and government group. And remember that in this area, it is about winning

the market and it's about providing differentiated product and solutions, that you can stand in front of a large corporate client and say, "Hey, we're different." Because there's a lot of guys that go in there and say, "Hey, we're cheaper", and we've got to go in there and say, "Look, there's something different about what we're offering."

I think we have made good progress in executing our strategy, but it's only, you know, this much and that is exciting because there is a lot more to go. And when I look across the business, I think, gee, if we really get this thing right, there's going to be no stopping us. So as I have looked at the business, I think we are probably going into a new stage with this new IP core network and the 850 network. It gives you this incredible platform on which to work off and when you are working with enterprise clients -- because all of you are in some way -- if that core infrastructure isn't really exciting then you really don't have a real differentiation.

But, firstly, let's have a look at how we've gone. This is the chart I put up 12 months ago and if you go through that, you know, as Sol said, one per cent revenue growth -- that's the first for 10 years that we have grown revenue. That is great. And remember we were going back negative 7, negative 9 per cent three years ago, so that's a big turnaround.

With the new wave revenues which are these IP and wireless data solutions now at 37 per cent of our total revenue mix. I mean, that's up from 32 per cent. That's a big change and you have got to manage this transformation.

You know, core carriage is only at negative six where it had been far higher than what it had before. We can only get contracts, signing contracts for one-and-a-half years where customers were before saying, "Look, I only want to sign a contract for a year", hoping that the price is going to go down. So longer term contracts allows us drive greater value. Simplifying our processes, every time I simplify a process I take cost out of the business. It is a better experience for the customer, very, very important. Management, accounts receivable, managing capital gets better cashflow.

One area I would say that we're still learning is in the application portfolio. Now, I will talk a little bit about this, but I would say we're just at the start of that and we've still got a long way to go. But we are starting to get some traction there, but all in all I think it's a pleasing result. I wouldn't declare it a victory. I would just say that we're on the way and we are starting to make a difference. And if we get it right, I think this new strategy that Sol, Greg, all of us went through 12 months ago, we've really got an exciting future ahead of us.

Now, as I said, we had one per cent revenue growth, but I just want to give you some numbers there because that new wave revenue and the traditional revenue mix is important to understand. It was $1.6 billion of new revenue, new wave revenue which is as I said 37 per cent of our total revenue base. Over the strategic period over out to 2010, that will grow to about 45 per cent of our total revenue.

You as analysts have to understand that because that means a completely different revenue and profitability mix that we have to manage very carefully. Because if we don't, then our profitability is not going to be able to be sustained and that is a lot of the time that I spend trying to understand that.

Now, the voice data mobiles revenue, though mobiles is going very well, but voice and data as you start to transition from traditional frame ATM business through to IP there's a revenue mix change. And what we find with the customers is that once they go to IP, they drop off a bit in revenue but then within a year they start to pick up a bit again as they have a lot of new value-added services come on board.

But the underlying results here are strong. As I said what is critically important and what Greg talked about, which is I can't stress how important it is, our underlying cost structure has got to drop to allow us to retain our margins. And that is not taking cost out of the sales side; it's got to be in the actual core costs of the product. I am excited. As Greg went through all the statistics about, you know, reduced number of truckrolls, the lower cost per unit, that is critically important and will be the way that way that we can at least sustain if not improve our profitability.

Now, this next generation IP network is important to understand because it really is that strategy that Sol and Greg and the team outlined a year ago. It is transformation and I would probably say to you that it is probably the best network definitely in Australia but probably in the world.

We are already churning about 38 per cent growth in the core IP revenue, and that is putting an incredible amount of opportunity and also stress and strain on the business because you are transitioning customers. And remember these data networks are the lifeblood of corporations.

If you talking about National Australia Bank or Westpac, that's what all carries their transactions and we have to be able to really manage that in a seamless transaction in a seamless way and as we said before at a lower unit cost.

There are some real advantages here to customers and the OSS, BSS that we haven't talked a lot about today but these are new systems that will allow customers to manage their own network. It will give greater service levels, an application layer on that network. As you look through there, it will give the monitoring tools and a large number of functionality but also improve reliability and scalability because without that you really are up against a significant number of challenges and very importantly, it is the largest network in Australia. I will repeat that. It is the largest network in Australia and that means we can go to more places and provide an incredible service to our customers.

So this truly is the next generation. Now, let me just change track a little bit here. Now, on top of that core network is remember I talked about nine application areas and seven services areas last year. I'm not going to go through them, but I want to give you a bit of an update on how we are going on each of these areas.

Since I spoke to you, we have established a New Solutions Division and a woman called Linda O'Grady is running that. We have about 800 people in that application area, and it drove revenues of about $483 million, just under 6 per cent growth last year. But we have a plan to grow this to about a billion dollar business out to 2010. Now, that's a big business. Remember these are areas around, you know, contact centres, speech recognition, IP telephony, payment solutions. These are valuated services on top of our core network.

Now, let me talk about some of the highlights since I spoke to you. 20,000 new IP telephony lines, just in the last nine months. You know, 87 per cent growth in wireless data solutions. Now, that's a small base, but that's very significant and we see no, you know, fall-off in terms of the demand there. We have put out two new contact centre solutions, but more importantly we have signed two contracts, each worth $20 million in terms of contact centres for large corporations. They are big contracts and they are very complex implementations.

We know, we now have over 200,000 retail EFTPOS devices under management. So this is underpinning the very retail payment solutions, and we have driven out in our new applications retail media solutions. We have now done a partnership with CSIRO in terms of critical care units. So we are starting to reach out in the community and really providing differentiated applications, often leveraging Australian applications. So as I said our intent is to build this into ten core application solution areas of around about $1 billion by the year 2010. So that's the application area.

As I said, I think this is an area that we are slowly getting traction in. I think we have got a lot of work still to do in this area, but that creates opportunity for us as we go forward.

In the services area, Telstra enterprise services, KAZ, led by Mike Foster, had a strong year last year. Still work to be done in this area, but it was a strong year. We had revenue growth of 11 per cent. Eleven percent. That is strong revenue growth for us. But what is critical here is not to get carried away of being an IT services company. It is about really, you know, really concentrating on where you can add value, where you can get profitable services revenue. It is easy to sign big contracts at very low margins, and that's not what we are about. You have got to leverage off your core network and you have got to really focus in on where you can get scalable and replicable services solutions. So that is why we said AAS, the superannuation business was not critical to us. It was a great sale. I'm delighted to say we did very well out of it.

We've got to really come back to what is going to be core for us going forward. But again as I said great result. We got 200,000 desktops under management. Manage WAN was up 15 per cent. Manage radio up 12 percent. And the list goes on. So I'm encouraged by that but I want to also say there is more profit here because if we get this right then we can really make a difference. So we are encouraged by the KAZ results, but we have some more work to do.

Now, in terms of this NEXT G wireless network, I mean, I have to say that this is probably one of the most exciting announcements we have had within Telstra and it is very, very applicable to the enterprise space. Already we had a little opportunity to a bit of a sneak preview without out seeing a few customers. We've already signed up 23 customers, just under 10,000 services and they're not just our partners who obviously are very keen to use our service but they are customers like -- and we've put a press release out today -- like Mission Australia, Century Drilling, bCode, Data EDI, a lot of the companies who are out working day to day out in the market because the power of wireless broadband allows people to do their work when they are out on the streets and the byways, out in rural Australia are critically important. So we have this great excitement brewing out there because it is all about coverage, speed, and simplicity and we are really excited about what is going to happen.

Now, as was said this morning, undoubtedly the most compelling proposition is around the mobile office. We have really been working these solution areas that are detailed on the right-hand side of the chart. Office mobility is critically important to nearly every executive that we talk to because it changes the way your life goes. Sometimes for the better, but remember it is you who turn it off. That's how I'll remind you. Because it can become a bit addictive.

Contact solutions very important and also remote and mobile asset management I will talk about in a moment. So as I said we have already got a large number of customers. We think this will just take off as we go forward. We have no doubt the transition we are taking our customers through is pretty seamless. We have done a lot of work about how to transition them through. We are not sure they all want to watch FOXTEL on their handsets in the business world, so we are going to try and build some business applications. But this is really exciting.

So those 1,500 customers we serve every day, we think they are in for a treat.

But I also want to announce today something that I think you should be very interested in. This is a set of new Telstra earning network-based applications. Now, as you know, I worked for IBM for many years. I remember Lou Gerstner saying that the future was around network-based applications. This is when you put applications inside the network and they are not actually sitting on the perimeter with service. So these are actually true business applications that change the way businesses operate, and we have put them inside the network and Deena referred to one of them, ZORA which is around workforce management. But there's another one called @ROAD. These are two world-class, world-leading applications that are now in the network and they provide workforce management tools and also fleet management. In fact, @ROAD is what we are using for our own Telstra fleet and Greg talked about that earlier.

The third one there is a company called Dexterra that takes big applications and for those who know Siebel SAP and takes them off the desktop and puts them on a mobile handset. That is quite a big job to do that because you have to re-design the application. This product has come out of Canada and now that product is available inside the network. So the whole pricing construct is not that you buy the application from the vendor and then you implement it. You actually buy it on a per month, per SIO basis and so obviously that is good for our ARPU, and you start to drive it up. I think it is an exciting announcement and really does give us a unique differentiator proposition to the market and to our large customers.

So in conclusion I think we made good progress, but we have got more to do which gets me more excited because I don't want to arrive; I want to keep going. But we are focused on the things we talked about, about that revenue growth fast to the market and that is the addressable market we are going after. It is about driving these new wave revenues, getting these Telstra-only services and solutions because I don't want to just put out any application to the market. Unless I can have a differentiated for Telstra, it really just ends up being a me too.

So if I get it differentiated for us then it really is something that customers say, "Hey, I want one of those." The NEXT G capability is exciting. Of course, the new IP MPLS network -- which is, a bit of a mouthful -- it really is very, very important because it gives you all this band width all this ability to drive out new applications that change the way you deliver services to customers or you drive productivity.

So we are focused on winning in the market. That's what I do every day, go out and seek customers and it is exciting. We think that we have got a pretty good future ahead of us. So that's it from me. I have lost Sol. So I'm going to pass to Justin Milne, my colleague, who is doing this great bit of work in BigPond ISP. So Justin over to you.

JUSTIN MILNE: Hi, everybody. Well, today really is a key milestone in our vision to broadband Australia. The next 12 months will see some amazing changes to mobile and online access and BigPond is extremely proud to be in the vanguard of this force for change. Now, I will run through some of the things that we have in store, but first let's have a look at what has been another very successful year for BigPond, Australia's leading internet business.

Our 2006 results showed that our broadband SIOs were up by 72 per cent with market leading growth in additions by really a country mile, and our broadband revenue was up 58 per cent, and we sustained in the process our market leading ARPU position. It is a beautiful set of numbers.

In a year when most of our major competitors lost share, ours grew to 44 per cent. That's a full three point increase over the year and since December 2003, we have increased market share by seven percentage points and that is against nearly all international trends. We have added customers at three times the rate of our nearest competitor and during one quarter, we did about four-and-a-half times their growth. It begs the question of course, how?

As is often the case it is about the basics, about better core systems, better customer service, and a better brand proposition. Let me talk briefly about them. Today our network provides outstanding reliability. We have rebuilt all of our core BigPond systems to ensure this over the last couple of years. Performance in the past 12 months has been well above our own benchmarks and with transformation, it will just continue to improve giving customers higher speeds and even more reliability. When it comes right down to it, that's what they really want from an ISP.

Reliability has paid off for us with record highs in customer satisfaction and a number of prestigious industry awards along the way to prove it. We have also won awards for industry leading customer service. An independent benchmarker called Global Reviews has presented BigPond with ISP of the Year medals for both of our telephone and e-mail contact centres. Our e-mail service, in fact, was judged to be the best across all 50 industries that Global Reviews measures in Australia. Just before I came up I got an SMS to say that we have been best in both categories for the last quarter again as well.

We have worked on building a great and trusted brand, and during the year Australia's perception of us has continued to improve, while again most of our competitors have gone backwards. Young & Rubicam conduct a thing called a brand valuator survey. They do it internationally and they've done it for about 50 years as I understand. And the brand valuator survey ranks BigPond in what they call the "Magician Category". It is a space we share with the likes of eBay, Google, iPod, Bang & Olufsen.

It has been a great year for our consumer messaging. International recognition at Cannes. We won a thing called a Kodak gong a couple of weeks ago, and we had one simple charming humorous ad that really has entered the Aussie psyche. (Show ad).

I have seen that ad about thousand times and I still laugh. I think it is the pain of the father that is the thing. Now, let me take you through the industry changing significance of our new wireless broadband offering. We have seen tremendous success in the past year with BigPond wireless, with customer numbers doubled in the first six months of the year and we continue to grow at an increasing rate, but we really are going to top these results.

With today's launch of BigPond wireless broadband on the NEXT G network, 98 per cent of Australians can access our BigPond entertainment and services wirelessly and especially when they are on the move. The NEXT G network works at much faster speeds and really totally superior coverage are a quantum leap in availability and usability. This BigPond wireless broadband card will give you a high speed service connection wherever you need it, in Bathurst or Uluru or Central Sydney, and even overseas with more than 30 countries signing up to roaming agreements with us.

Personal high speed ubiquitous internet access really will change the way that Australians work, rest, and play. You should try it for yourself if you don't believe me, and you will see exactly what I mean. Since we met on November the 15th last year, we have been pretty busy launching new products, trying to innovate and trying to delight our customers. Apart from wireless broadband and our high speed cable access products, we have successfully launched our BigPond movie and games download shops. We have done big blog with video and photo updates from 3G phones. We have launched BigPond TV with two new Internet channels today. We have revitalised our news service and added a terrific weather service plus a wide range of popular webcasts with events that include the Sydney Symphony Orchestra and our Band on Demand Rock Concert Series across Australia.

Our entertainment keeps existing customers loyal and it attracts new ones. Broadband entertainment consumption has more than doubled in the past year, and today bigpond.com sees much more traffic from non-BigPond customers than it does from our members. That is a very important lead indicator for me. Entertainment puts sizzle into our access products. It is a great non-price differentiator. It is crucial to understand how this pull-through really works. The customer decides let's say it is time to get broadband. They look at the offerings around, and they can easily distinguish us because we have got, say, the footy or the V8s. They value the fact that we unmetre our movie downloads and our music stuff and so they decide, therefore, to go with BigPond.

Thank you for that slide. We will just go to the next slide, if we could. The entertainment media that they find then drives usage and speed upgrades. Customers using big files for, say, movies or games downloads just simply want them to arrive faster after awhile, so they leave behind the entry-level plan that they started with in broadband and they migrate to higher usage and higher speed plans. And, of course, in the process their ARPU goes up. Once they have joined us for a two-year contract, we have lots of opportunity to upsell them to PSTN and mobile services, if they haven't already brought them in a bundle. And, in addition, the great thing about new media revenues is they are all additive from a Telstra perspective. For example, our BigPond movie customers are spending around $20 a month with us, and it is all new revenue for Telstra.

Today Teletra is the market leader in digital media. BigPond is number one for online entertainment and Sensis is the market leader in online advertising and directories. Together BigPond and Sensis now stand high over the competition for digital media revenue. Let me show you a five-minute video of how this can all come together. (Show ad).

So you can see the importance of entertainment for BigPond, and I'm very happy today to make a few announcements about some major partners who will be working with us over the years to come. For footy fans, we have entered in a new five-year deal -- $60 million deal -- with the AFL. It is the biggest online and mobile content deal in Australian history. But if AFL is not your code, don't worry because we are in advanced negotiations to renew our sponsorship and new media rights to the NRL. We hope to be able to conclude these very soon. BigPond has also entered into another six-year deal with V8 Supercars Australia. That will give us unprecedented access to trackside and in-car cameras. Customers who have a Telstra 3G mobile and BigPond broadband will be able to stay in touch with their favourite sports virtually in realtime and on demand almost wherever they are.

But there are a few Australians who believe that there is more to life than sport, so on the movie download front today we are adding a double whammy. There's the deep film library of Warner Bros. including event movies from blockbuster franchises of Superman and Batman and then we have done a deal with the BBC Worldwide for their outstanding TV catalogue.

We are now in a great position where some of our movie download offerings you just can't get anywhere else. Some are cheaper, and all of it is convenient and of course free of download charges for our cable and ADSL customers.

Looking to the year ahead, BigPond will focus its efforts on three big objectives. We will increase our broadband market share leadership. This is fundamental for our business, and we have targeted 45 to 50 per cent market share or above, by the year 2010. Second, we will continue to grow and extend our great brand. We will further develop our new media capability with plenty more surprises and innovation to come.

Our business is growing strongly and profitably. It is also adding significant new revenue to Telstra and protecting our fixed line business. Content revenues will increase significantly as we offer more and better product, and we expect total revenue from non-access products to be around 12 per cent of

BigPond revenues by 2010. We are confident that in turn this will also help us to continue to increase our market share in the internet access part of our business.

For Telstra, both BigPond and Sensis provide a unique opportunity to advances as a new media comms company combining network and IT capabilities with the exploding new media world of the internet and, of course, our great customer franchise. Thank you.

SOL TRUJILLO: Well, Obviously Justin has an exciting story and it's part of this whole notion of how we are going to continue to expand our broadband leadership but also how we think about our digital, online services and capabilities. But hopefully you also got a preview then of how that is going to work in our relationship of integration across the business with Sensis.

So what I'm going to do now is ask Bruce Akhurst to come up here and tell you the Sensis story which again is another growth platform within the business and hopefully you saw from our results back in August that he and his team are doing a terrific job. So, Bruce, do you want to come on up?

BRUCE AKHURST: Thanks very much, Sol. It's a great pleasure to be with you here again today. It has been a great year for Sensis. For the fourth year in a row we have delivered on what we said. We are on track to keep delivering on our plans. We are perfectly placed to help make Australian buyers and sellers and particularly Telstra customers the most connected in the world.

There are four points I'm going to make. First, 2006 was our fourth straight year of strong growth. Second, we are delivering on a powerful value proposition helping people find, buy, and sell. Third, our sales relationships, our content, our multimedia publishing capabilities, our brands, our high-quality user base, and our place in the Telstra family, they are all unique and unrivalled capabilities which are increasing our edge in the local search market. Finally, we have the strategy to leverage these capabilities into continued near double digit revenue and EBIT growth. We are on track to reach this target this financial year.

Last year we forecast 6 per cent revenue and near double digit EBIT growth. We beat those targets and achieved our fourth year of excellent growth. We delivered 7 per cent revenue growth to over $1.8 billion, with only 3.7 per cent cost growth resulting in 10 per cent EBIT growth to $932 million.

We saw print continue to grow and we saw tearaway growth from online. The next growth horizons are now emerging; whereas, sat nav revenues grew at high double digit rates as did Sensis MediaSmart, and we have big new growth horizons emerging with transactions and Telstra mobiles.

Our newest acquisition SouFun is an exciting platform for the future with near triple digit growth rates. With this one acquisition, we have established ourselves as the undisputed market leader in the high growth Chinese online real estate market. In addition to all of this, we are seeing our margins expand nicely. Full year was driven by an excellent second half which saw 9 per cent revenue growth and a 2.1 per cent decline in expenses and an exceptional 16.7 per cent EBIT gain.

This highlights the cyclical nature of our business which as you know tends to show lower first half and higher second half growth. As John Stanhope has already advised this is going to be amplified this year by $200 million in revenue from the first half to the second half due to our revised printing and distribution program which is reducing our costs.

Sensis is delivering and integrated advertiser and consumer proposition that helps people find, buy, and sell. We are achieving this with a six-prong strategy that builds on what we presented to you last year. First, we are extending the value of the call Yellow and White Pages print business. We are driving up usage and making buying easier with new services such as Yellow in the Car directory and Yellow buyers guides. We also combined our Yellow print and online sales forces this year to better meet advertiser needs.

As a result of this, we can deliver multichannel solutions rather than products to our customers. This has been a very successful initiative. Despite what was a major change, we maintained customer satisfaction scores above 8 out of 10. The number of advertisers taking print and online has soared. Less than 1 per cent of Yellow customers take online only, while the number taking print and online almost doubled. So it is important to understand our customers aren't taking online instead of print. They are increasingly taking both, which is great news for Sensis.

The second part of our strategy is to take our print capabilities and content into multichannel advertising solutions. So, we have rebuilt the Yellow, White pages, City Search, and Whereis websites to provide new information and search capabilities. We increased the availability of maps in Yellow Online and now serve up a staggering 65 million Whereis Online maps a month – 65 million. We undertook Australia's first click to call trial on sensis.com.au. We added new content such as movies and weather to Sensis 1234. We created My Trading Post, a personalised experience for trading post online buyers and sellers. And we added buyer research content to Yellow Online and Trading Post Online, And we added Sensis Mobile, Trading Post, City Search and Sensis SMS to our rapidly growing mobile network.

The third part of our strategy is to extend into new areas an offerings related to our core. This adds value to buyers and sellers and opens up significant new revenue opportunities such as transactions. We launched comprehensive new Yellow category services such as Home at Yellow and Yellow Offers. We launched GoStay which not only gives national coverage to Yellow advertisers, but it adds bookings and transactions.

We enhanced Trading Post Online, including addition of transactions which makes buying what you need now a one-step process. Our business has always been about connecting buyers and sellers. Transactions is a logical and an important next step. We are already seeing strong transactional revenue growth in GoStay, and transactional capabilities have sparked a rush in Trading Post Online advertiser uptake.

Since launching transactions last year, new registrations have grown by approximately 7,000 per week, and the average weekly volume of online-only ads has grown by 57 per cent.

Sensis used to be an advertising company with a single revenue source which was ad placement. We are now diversifying into a virtual marketplace with advertising, with transactional, with connection, with content production, with business services, and search revenues across multiple leading products and channels. Geographic and domestic expansion is the fourth plank of our strategy and in the last 12 months, we have mapped 99 per cent of New Zealand's roads with Whereis, and we acquired the majority shareholding in the global online success story SouFun which you have heard about. We have also had real success in managing our costs, and this is going to continue because we want to maintain our margins as we grow so we can free up capital for investment in our high-growth businesses. And we are going to continue to pursue people, process, and technology excellence in all that we do by maintaining a focus on platform redevelopment, executing with excellence, and our strong people record.

This was recognised last year with three HR awards. So, yes, as you can see, we also have been extremely busy this year executing on our strategy. Underpinning our strategy are the unique capabilities which are stronger than ever before. They are the reason why we are winning today, and we are going to continue to win in the future. Let me describe our competitive differentiators to you.

We have a thousand sales people selling and collecting content from 800,000 businesses of which almost 600,000 are paying customers. Now, we do offer self service to our customers. This is a complimentary service, but it is no substitute for feet on the street. Our people hold deeply established personal relationships with businesses all over Australia day in, day out. This is a huge competitive advantage. Face to face in the premises of our customers, we can tailor solutions. We know their content. We can keep it up to date. We can acquire knowledge and, of course, most importantly we can sell. Show me a self-service engine that can do all of that.

We offer buyers an unparalleled pool of relevant and up-to-date content, Over 2.5 million listings, many containing deep content in Yellow alone. People know that our content is more comprehensive, more accurate, and more current than they can get from any other source. We publish through print, through online, through mobile, through sat nav, and through voice. It is our multichannel publishing capabilities that make information easy to access any time, anywhere, anyhow. Again no-one else comes close to that.

A critical strength is also our position in Telstra's leading online and mobile channels, and I'm going to touch a bit more on that in a moment. We also have strong trusted brands such as Yellow, White Pages, and Trading Post which are all listed as Australian superbrands and achieve awareness scores of over 90 per cent. We reach a large, high-quality user base. Over 12.5 million Australians use our network every month. Ninety per cent of Yellow users go on to contact the supplier, and over 70 per cent of them go on to buy. Again, the quality of this audience is unparalleled in today's market.

So it has been these six unique capabilities that have been underpinning our success. This is why most Australian businesses advertise with Sensis, and more Australians are turning to us to help them find, buy, and sell. And we will remain ahead with a strategy that builds on those competitive advantages.

Now, as I have said, our competitive advantage is further strengthened by our place in the Telstra family. Telstra services reach more Australians than any other telco. Through Sensis, BigPond, and FOXTEL, Telstra is also delivering the in-demand content that drives usage of those services. Sensis's prime position in BigPond and BigPond mobile drives substantial usage to Sensis. We are receiving 1.7 million referrals a month from bigpond.com alone. These referrals drive even more traffic into the Sensis network delivering even more potential buyers to both our print and our online advertisers.

And now on your Telstra NEXT G mobile you will be able to access Sensis services easily by the handset menu or go straight to BigPond and you will see Sensis sitting in the number two spot in the menu. Whichever way you go, Sensis is in a prime position. Now, that is important because we are talking about almost 50 per cent of the mobile user base being accessible to our advertisers. What a great value proposition.

Clicking takes you straight to the Sensis search hub. One click and you are there. You can access services such as Yellow Mobile, Trading Post, City Search and Whereis. Try finding a restaurant. The mobile locates where you are and gives you nearby options. You get listings and maps, and as easy as that, you are there. We are making finding what you need easier every day.

This high profile, one click access is a great service and a real growth driver for Sensis, and our content is an in-demand value add for NEXT G users. A recent Yankee group survey found that at least 40 per cent of respondents over the age of 25 nominated Yellow Pages and White Pages content as the top five driver of mobile subscriptions. In fact, users aged over 45 nominated Yellow Pages second only to mobile e-mail.

Integration is a classic win-win. Telstra and Sensis win because our reach and services fuel ongoing usage growth which drives access, subscription, advertising, and increasingly transactional revenue. Importantly, our customers win because they have easy access to the services they need through Australia's largest online voice and mobile networks. Their lives are made even easier. More Australians use Telstra than anyone else and more buyers use Sensis than anyone else. That equals unrivalled value to our advertisers.

As the numbers demonstrate, this is a business of enormous diversity and scale. Sensis has all the capabilities in place to deliver high quality, easy to access local search services. And we own these capabilities lock, stock, and barrel. Others are chasing us to obtain them, and we are aggressively leveraging these capabilities into new services. New products like Home at Yellow or Yellow Office don't mean creating new sales forces or content partnerships. We already have them and we have a billion dollar print business to leverage the costs against.

When we want to add new functionality like maps, it doesn't mean new costs and partnerships. Unlike our competitors, mapping is -- it is a profit centre for Sensis, not a cost.

More and more we are simply aggregating content and diversifying at low incremental cost. As our digital footprint goes, these costs will become more incremental and our margins will grow. In fact, we are already seeing this happen in Yellow Online.

In the last financial year, we saw 22 per cent usage and 25 per cent customer growth. Rapidly growing usage and advertiser demand is placing upward pressure on yields. So we delivered double digit yield growth last year. Higher yields combined with lower costs means stronger margins. Yellow Online margins grew by a stunning 50 per cent last year, So who said on line was a low margin business?

To recap, 2006 was our fourth straight year of strong growth. We achieved on our targets with 7 per cent revenue and double digit underlying EBIT growth. We have a strategy for growth which is based on the simple premise of helping people find, buy, and sell any time, anywhere, any way they choose. Our unrivalled competitive advantages, which I have outlined, underpin this strategy. Looking forward, we are going to leverage those capabilities into continued near double digit revenue and EBIT growth. We have an aggressive pipeline of innovation in place. As you have seen, we have had an impressive track record of delivering product innovation and that's going to continue. I look forward to sharing some of these exciting announcements with you.

In closing, I work in an exceptional business. Our core content such as Yellow, White Pages, Whereis, and Trading Post is in demand across all channels and a wide variety of products. We are driving this content into new products and services that meet diversifying buyer and seller needs. At the same time, we are creating new growth horizons for the business and adding value back into the core, and we will continue to expand and strengthen this network by leveraging our capabilities and scale at an incremental cost across Australia's best and most popular media comms network, Telstra.

We already offer more accessible comprehensive and up-to-date services than any of our competitors. And Thanks to our unique and unrivalled capabilities, I'm very confident our success will continue for

buyers, sellers, and Telstra shareholders. Thanks very much. I will now hand back to, Sol.

SOL TRUJILLO: All right, Bruce. Again, hopefully you have seen the consistency of message here. Bruce is really driving a lot of growth and it is profitable growth, high-margin growth or as I like to say high-calorie kind of growth in terms of our business. It is all integrated.

So now we are at the moment in time where we get to see the guy that is going to translate it all in terms of the financials for you, and I know many of you have been waiting for it, but obviously John has some key messages as well. Not only just the roll up of the numbers, but really helping everybody understand how this new economic model really should be thought about for Telstra. John.

JOHN STANHOPE: Thanks, Sol, and good afternoon, ladies and gentlemen. I can sort of feel the energy levels dropping a little in the room here, but now is the time to be excited because this is about financials. I'm not here to keep the rabbits out; I'm counting the rabbits coming in. Okay. Let's get serious.

Today I will address four important topics. I'm trying to bring all of this together for you from a financial perspective. The four topics are: One, our new economic model which emerges from our transformation. It is actually an operating model which we expect to facilitate the achievement of our long-term management objectives. Secondly, I'm going to talk to you about the fiscal year '07 outlook and the August year-to-date performance. Thirdly, I will talk about our longer term management objectives and how they have changed from November 15. And fourthly, just a little bit on Telstra scale and scope advantage.

You have just seen and heard we are transforming the business with some impressive results on the board already. From a finance perspective you have heard me talk before about how this transformation is driving a new economic model for the way we look at and analyse the business and deliver the results. Let me take you through the model to help you understand how this new model can deliver long-term shareholder value.

As Greg Winn touched on earlier, the infrastructure investment we are undertaking in upgrading our platforms and making them IP based will change the way we have historically looked at the economics of this business. Gone are the days of having to build a new platform and undertaking complex system modifications in order to introduce a new product. In the IP world, the intelligence is stored in the network.

New applications and services can be introduced simply via software upgrades. A software defined environment together with simplified and integrated processes not only opens up a whole new array of revenue opportunities but importantly, it can be done at low incremental cost. It is these economics that will allow us to compete hard to grow our top line while also maintaining margins.

We have developed a new revenue framework -- You see it on your screen or you have it in your handouts -- made up of four quadrants to help illustrate this evolution. In it we have split our product and service revenues into traditional and new and then further split them on a network basis; that is, are they derived from or on a traditional or next generation network? We are growing revenues in each quadrant other than the traditional revenues derived from traditional networks which I think you all understand.

As we move from left to right on the chart that you see, you can see what we call re-engineering and reinventing opportunities. Re-engineering in the bottom right quadrant relates to traditional access and voice-type products being delivered over next generation networks such as VoIP, mobile 3G, broadband access, and IP data. Re-inventing in the top right quadrant relates to new products and services being delivered over next generation networks such as IPTV, video calling, content, a lot of the things you have heard about today and things like hosting. Combined we refer to these as the new revenues.

We expect new revenues generated from next generation platforms to grow from 12 per cent of the base in fiscal year 2006 just finished to more than 30 per cent of the base by fiscal year 2010. This changing revenue mix is expected to lead to a change in the economics for delivery of these products and services and, therefore, change the cost structure of the business. For example, we expect to see an increase in directly variable costs as higher bandwidth allows for each applications and service that drive the revenues but unit costs should reduce.

We are developing the new model to provide transparency of profit drivers across product portfolios and processes. This will help us understand the implications of the rapidly changing product portfolios and the business environment and the impact of business transformation on our process costs and our profitability.

Detailed driver analysis helps us better understand the activity costs. Despite rising directly variable costs because revenue is being driven up -- driven by higher volumes to support that revenue growth, the transformation initiatives are expected to deliver significant process cost reductions; thereby, as I said earlier, enabling the margins to be maintained over the longer term.

In the IP world where the intelligence resides in the network, new applications and services can be brought to market quickly at low incremental costs via the software upgrades that I talked about. This is quite a change from the old days of rolling out new products -- and I can remember them -- on an exchange-by-exchange basis and having to invest large amounts of time and money on customisation to fit the complex array of legacy platforms and IT systems.

This flexibility will allow us to continually re-engineer and re-invent on the next generation networks with the expectation that operating cashflow will return to growth as we more than offset the declines from traditional networks. You can see how that economic model on the slide or the economic model grows free cashflow towards the fiscal year 2010.

In addition, by removing legacy platforms and operating in an IP environment, our capex levels should fall dramatically. So when we talk about free cashflow, we expect to see a return to growth from a combination of the improved operating cashflow from the business and the lower capex requirements as we move through the transformation out to fiscal year 2010.

'06-'07 is our highest spend year, but we expect to return to a strong free cashflow position with our management objective in the range $6 to $7 billion in fiscal 2010.

Over the transformation period to fiscal 2010, the incremental capex is now expected to be $1 billion, and you will recall last November we said it was in the range of $2 to $3 billion. The incremental capex spend is lower, of course, because we now have removed fibre to the node.

With that, let's now turn to fiscal '07 outlook and August year-to-date performance. Let me reiterate our fiscal 2007 outlook assumptions. So no fibre to the node build; unbundled local loop pricing in band two of $17.70; it is the largest year for transformation spend, and there is no additional provision raised for restructuring or redundancy in the '06/'07 year.

So with those assumptions the outlook is also, I should say, based on the numbers for fiscal year '06 being the base, that is an EBIT of $6.5 billion. So expect revenue to grow in the range of 1.5 to 2 per cent. We expect depreciation and amortisation to continue at levels in line with last year. We expect EBIT to grow in the range of 2 to 4 per cent and our cash operating capital expenditure is expected to significantly increase from fiscal 2006 to between $5.4 billion and $5.7 billion. We expect our underlying EBIT for fiscal 2007, so this is the underlying performance of the business to be in the range of minus 2 to minus 4 per cent when compared with the fiscal 2006 underlying EBIT of $6.5 billion.

It is the current intention of the board to declare an ordinary fully franked dividend of 28 cents per share for the fiscal 2007 year. This assumes the company does continue to be successful in implementing its transformation plan, and there are no further material adverse regulatory outcomes during the course of fiscal 2007.

I'm going to talk about the first half and the second half EBIT growth profile in the fiscal year 07. I have explained the unusual half one year on year outcomes before, but let me explain again to be crystal clear and put a bit more emphasis on the second half.

The half one year on year outcomes will be unusual because of a revenue recognition change and the profile of fiscal 2006 where transformation costs last year were not incurred until the second half.

The following factors affect the half on half performance in this 07 fiscal year: A delay in the revenue recognition of the Melbourne Yellow Pages book until January 2007, due to the changed printing arrangements resulting in a later distribution of that book. This will impact revenue resulting in a later distribution, it will also, because of the later distribution will also impact EBIT in the first half of fiscal year 07. But it is made up in the second half of fiscal 07 and has no impact on the full year; transformation costs occur in first half 07, compared to there being none in first half of 06. There was no accelerated depreciation and amortisation occurred in first half 06. But we do expect in the first half of 07 there to be between $150 million and $175 million and they will be recognised in the first half of this year.

The impact of these results is expected to cause a significant reduction in our first half EBIT, so don't be surprised, in the range of minus 17 to minus 20 per cent from a base of $3.5 billion.

However, in the second half, EBIT is expected to grow in the range of positive 37 per cent to 40 pre cent from a much lower base, hence the large numbers, of $2 billion as a result of the transformation impact in half 2 last year.

Importantly though, the improvement in performance has begun with the underlying outlook of minus 2 to minus 4 per cent, much better than the minus 7 per cent recorded in fiscal year 06. And we expect this improvement to continue as the transformation gains further traction in fiscal year 08.

Let me turn to the unaudited results for the first two months of fiscal 07 that show the improvement of the second half of fiscal 2006 continues. On the revenue front, the PSTN decline is consistent with the improved second half 06, as you can see at minus 5.9 per cent. While mobiles, growing at 9 per cent broadband, growing at 41.3 per cent and Sensis growing at 10.6 per cent continuing their strong growth.

Our labour costs are down following the headcount reduction in fiscal year 06 while variable costs remain high as we continue to compete hard and other costs are growing driven by the transformation. Given this is expected to be the largest transformation spend year we do expect the other operating expenses growth rate to trend lower in future years.

EBIT is minus 8.6 per cent after 2 months trading which compares with our half year outlook of minus 17 to minus 20 per cent. But let me caution we are only two months in and we still have cost acceleration for transformation to occur, the Melbourne Yellow Pages revenue recognition change to occur and we are yet to see the impact of any unbundled local loop or spectrum sharing flow through. That is the prices and the flow through of those.

However, we are ahead on our underlying cost drivers with a further full time equivalent reduction of over 1000 in this fiscal year to date. So the first two months of this fiscal year. And just in case any of you are wondering this does not include the reduction of 900 people associated with the sale of AAS. So it is the organic part of the business.

Just to give you a bit more detail on the cost drivers as yes they are high growth numbers:

Growth in goods and services purchased is being driven by our aggressive push into the 3G market leading to higher cost of goods sold and handset subsidies. We added another 210,000 3G SIO's in the last 2 months (includes wireless cards) to the end of August to take the total to 628,000. In addition to higher volumes, average subsidy levels also increased from a greater range of handsets and subsidised handsets. 3G ARPU is holding at $20 per month higher than 2G, and this is before Next Generation network opportunities.

Growth in other expenses is being driven by higher service contracts and agreements relating to the key transformational turnkey projects. These are milestone based contracts and this ensures the transformation costs remain variablised.

Now let me turn to long term objectives. You will recall the previous objectives were based on achieving reasonable regulatory outcomes, mainly around 2 key issues – fibre to the node and ULL prices and averaging of those prices. We announced fibre to the node would be placed on hold following a break down in talks with the ACCC while on ULL we have been issued with interim determinations of $17.70 in Band 2, well short of our $30 national average cost.

We have now assessed the impact of these two unreasonable regulatory outcomes and our new management objectives out to fiscal year 2010 are based on no FTTN and a $17.70 Band 2 ULL price with a 100 per cent pass through to retail pricing. That is the difference between $22 and $17.70 and in later years $30 and $17.70.

These management objectives have been set in order to measure Telstra management's performance in

implementing the transformation plan. They are set on the basis that we continue to be successful in implementing the transformation and of course that there are no further material adverse regulatory outcomes.

I want you to note carefully that the compound growth rates are consistent with those last years, that is last November, and that is that they are off the 05 or fiscal year 05 base.

The revenue objective is unchanged. While the fibre to the node and ULL outcomes obviously have impacted our revenue assumptions, there are changes to other assumptions that result in the 2 to 2.5 per cent management objective being maintained, for example, the investment in non-regulated areas, such as HFC cable, and new revenue opportunities from our new 3GSM 850 network, Next G, including wireless access and mobile applications and services, and you saw quite a number of those today, managed IP telephony services, vertical industry solutions for the corporate market, integrated content for broadband services including fixed and mobile applications tailored to our segment streams, which you have heard a lot about today, and greater penetration of multi-dwelling units and higher speeds on the HFC cable.

These revenue initiatives are expected to result in some cost pull-through. You have seen from our fiscal year '06 results, in particular the second half performance, and you have heard from management today how we expect to go about driving revenue growth. We will compete hard in the market and our aim is to be the market leader in 3G. That aim is a key plank of these objectives.

Higher variable costs are expected to follow as we drive ARPUs from applications and services, and the absence of FTTN removes cost savings that were expected from replacing copper lines. However, intended cost savings from the transformation initiatives are expected to limit total cost growth in the range of 2 to 3 per cent, and that is a change from where we were in November. It broadly tracks revenue and enables margins to be maintained between 46 and 48 per cent, again a change from November 15 because of the drivers I have mentioned previously.

Consequently, our management objective for EBITDA growth is expected to be lower and in the range of 2 to 2.5 per cent. Following in the near 4,000 headcount reduction in fiscal year '06, that is excluding the acquisition of New World, the fiscal year 2010 objective is now 12,000. That is at the top end of the previous management objective.

As explained earlier and mentioned in previous forums, we expect our capex requirements to be substantially reduced post transformation with a normal capex to sales ratio in the 10 to 12 per cent range.

Finally, the fiscal year 2010 free cashflow objective remains unchanged from the previous objective, that is in the $6 to $7 billion range, with lower EBITDA growth being offset by lower capex. For those who follow accounting, the free cashflow is on an IFRS basis.

As you can see, we have an exciting future from building competitive advantage and leveraging economies of scale from our investments whereby we can pursue our management objectives and drive superior economic returns. These advantages include our fully integrated structure is unmatched by any of our peer group, with the most complete set of assets across fixed, mobile, broadband, Sensis and Foxtel, and we are the only true national infrastructure provider because we have made the investment.

Global telcos including BT and AT&T, have tried over the years to gain a foothold in this market. However, these companies were not prepared to invest and as a result, could not gain scale to make their operations viable. Telstra continues to be the only carrier with scale and scope in this market, which gives us a tremendous advantage.

We are seeing real momentum in the business. Top line growth is strong and we expect to build on this with the launch of the Next G Network and the other initiatives that have been described today and the ones I have just gone through quickly before. We are changing the economics of the business with our transformation. We are taking costs out as demonstrated by the progress on our headcount reductions. The strategy is working, underlying performance is improving and this momentum will build further as we pass the peak transformation spend this year. So thank you and I will close and hand back to Sol. Thank you, Sol.

SOL TRUJILLO: Why don't you stay up here. I want you just to come on over here. I'm going to do one last thing, and that is introduce you to Bill Obermeier, who is going to show you a quick preview of some of the ads and some of the campaigns as he heads up our corporate advertising because the idea here is really around this Next G transformation and getting customers to buy and to use and to gain a new experience from Telstra. So Bill.

BILL OBERMEIER: Thanks, Sol. I have a question for you. What do you get when you launch the biggest, most advanced wireless network in the world? Product differentiation and true competitive advantage, and with that comes big ARPU opportunity. But how do you make sure you seize that opportunity? By making sure customers understand what this network can mean for them, how it gives them more ways to do more things in more places faster and simpler than ever before possible.

You have already heard Bill Stewart talk earlier today about how segmentation has doubled the effectiveness of our advertising. So that is the next piece of logic. We will make sure every segment understands how this network meets their core driving needs. Because our Next G Network will bring broadband speed to 98 per cent of all Australians, our campaign needs to reach 98 per cent of Australia so we maximise the ARPU opportunity.

So the logic of our communication strategy is quite simple: segmented communications based on truly differentiated applications and capabilities, implemented in a nearly ubiquitous campaign, because this is the beginning of a new way of life for all Australians to experience life here, a new way to experience life here, truly the next generation of living and working. We are inviting every Australian to say goodbye to dropping calls when they get into every lift, goodbye to waiting for files to load, goodbye to slow music downloads, goodbye to finding it too difficult to shoot and send photos, goodbye to the world other providers offer and instead say hello to enhanced data services, new capabilities that are simple to use, staying connected wherever they are. Say hello to the next generation. That is why all of our electronic advertising will feature the sound track to this new opportunity, "You say goodbye, we say hello".

This week you may have seen the unique five second ad as part of our introduction of the Next G Network. Each of these ads presents one of the three pillars of our communications: faster, simpler, everywhere you need it, and here is just one.

(Advertisement shown).

You may have also seen one or more ads from our series of 15 second ads that are also part of the introduction campaign. In these we focus on the one touch simplicity you have been hearing so much about today with the exclusive "my place" menu. Here are just a few examples of how Telstra is making it faster and easier than ever to do what you want to do with your mobile.

(Advertisement shown).

As you can see, not only are we demonstrating one touch simplicity but also integrating our entire brand portfolio and the value added services unmatched by anybody anywhere. Then, having established a solid understanding of our key competitive advantages, we are going to move on to advertising that demonstrates applications of specific interest to each of our segments; in other words, the things they can do faster, simpler, better than ever and across Australia, not just in the cities. Here a friends, fun and fashion young woman dual downloads music at the touch of a button.

(Advertisement shown).

This principal professional discovers he can't get rid of an unexpected call where he used to experience drop calls every time.

(Advertisement shown).

And just one more: the manager and maxi manager segments will discover there is a new way to stay connected across Australia with mobile videoconferences.

(Advertisement shown).

Remember this is a huge network with national coverage that requires an expansive communications campaign to reach the true huge ARPU potential. So you are going to learn about Next G and what it can do for you just about everywhere you go and in some surprising places.

There is also a full press campaign with specific segmented ads targeted in matching segment driven publications. Telstra is going to take our Next G story on the road, travelling all over the country with high-impact, customer-friendly mobile experience centres where Australians can experience up close and personal the incredible reality of Next G. If we were still at Circular Quay, as you would be leaving about now you would be experiencing along with 3,000 other people an experience centre outside in the forecourt and an amazing 3G concert, but you will read about it in the paper.

Through our intense marketing communications, Australians will quickly recognise the significance and value of what is being built for them: a telecommunications infrastructure that will open the door to the future for all of Australia. Now, let me remind you what we said back in March what that future was going to look like.

(Advertisement shown).

As you have seen today, that is exactly the world we are now delivering with Next G. What used to be fast now seems low in comparison. What used to be far away is now wherever you are. What others have made complex is now simple. So I invite you to be watching free-to-air TV, actually any TV station just about, this Sunday night at about 8.52 for the full introduction of the world's largest, first and only Next G network. Say goodbye to life as you've know it. Say hello to the next generation, only from Telstra.

(Advertisement shown).

SOL TRUJILLO: All right. Bill, thank you very much. Hopefully you have seen we have thought about this Next G capability end to end and it is going to make a big difference in terms of our business. But enough of that. We are going to open it up for questions. I know it is late. I apologise for the events of the day. But for those of who you still have the energy and still have the desire to ask whatever questions, we will do it now.

Attachment 2

Verizon documents

Verizon Outlines Leadership Strategy for Bro Era; Announces Major New 3G Mobile Data a Wireline IP Network Expansions

Thursday, January 08, 2004

Verizon Chairman and CEO Ivan Seidenberg, at the Consumer Electronics Show, Says Company Will Invest $3 Billion Over Next Two Years to Bring Broadband to Mass Market

Verizon Chairman and CEO Ivan Seidenberg today unveiled the company's plans for leadership in the emerging broadband industry. He outlined two major new network expansions that are key to bringing the benefits of this new era to homes and businesses across America and said Verizon was committed to investing a total of $3 billion in its networks over the next two years to bring broadband to the mass market.

To illustrate Verizon's unique ability to lead in the broadband revolution, Seidenberg also announced a new service, iobism, and new product, Verizon One, that will help help families and businesses create a personal network to manage their communications devices and activities.

The network expansion initiatives involve both Verizon's wireless and wireline networks. Verizon Wireless will expand its third-generation (3G) mobile data BroadbandAccess network nationwide. In addition to its ongoing annual capital investment program to build network capacity and coverage, the company will invest $1 billion over the next two years to further deploy its broadband technology, known as EV-DO (Evolution-Data Optimized).

Verizon also will dramatically accelerate the evolution of its nationwide wireline network to packet-switching technology and, as announced yesterday, has selected Nortel Networks as its voice over Internet protocol (VoIP) equipment provider.

Both moves are major steps toward creating a new growth-market for communications services in the wireless and broadband era. Seidenberg will outline the company's plans and Verizon's vision for the future in an address scheduled for 2:30 p.m. PST today at the Consumer Electronics Show in Las Vegas.

"For the last decade, we've been steadily reinventing our networks, products and culture to be ready for the wireless and broadband era," Seidenberg said. "Verizon has invested some $55 billion in infrastructure since 2000 -- more capital than almost anyone in America -- to move toward our vision of an integrated, high-speed multimegabit network that will support applications that will fuel the growth of the entire high-tech industry in the future. The network expansions we're now announcing, along with the new products and services they will deliver, further underscore our commitment to being a broadband

Vz Financial Express

Verizon Communications Posts Strong Third-Quarter Results as Organic Growth Initiatives Gain Momentum

Review Q3 2006 Financials
› Non-GAAP Reconciliation
› Earnings Webcast
› Presentation
› Quarterly Bulletin

technology leader."

Verizon Wireless To Expand 'BroadbandAccess' Nationwide

Verizon Wireless will begin immediately to expand its BroadbandAccess service nationally. Powered by its Evolution-Data Optimized (EV-DO) third-generation (3G) wide area network, BroadbandAccess will be phased in nationally over the next two years.

With average user speeds of 300-500 kilobits per second, BroadbandAccess is the fastest commercial wide-area wireless data technology available today and is based on CDMA technology. Proven to be the most versatile and cost-effective wireless technology in the marketplace, BroadbandAccess will be available to business and individual customers beginning in the summer of 2004 throughout significant portions of the Verizon Wireless national footprint, and in additional markets through 2005. Verizon Wireless was the first U.S. wireless carrier to launch commercial wide-area wireless data service in major markets last fall.

Unlike with Wi-Fi, BroadbandAccess users don't have to be within a few hundred feet of a hotspot to have a true wireless high-speed connection. They can connect on the road, at the job site, in a taxi, on the train, or anywhere within the BroadbandAccess coverage area.

Verizon Communications To Create Nation's Largest Converged IP Network

Verizon also plans to begin replacing many of its traditional telecom switches with Nortel's VoIP equipment in its local and long-distance voice wireline networks later this year. As deployment gets under way, the company will offer one of the industry's most comprehensive suites of VoIP and multimedia services. The company expects that its next-generation network will be the nation's largest converged network, capable of simultaneously handling voice, data and video transmissions.

Verizon began deploying similar technology in its network in 1999, with VoIP gateway switches for some long-distance companies. In 2002, Verizon began installing similar technology in parts of the company's inter-city network and a year later deployed the technology in segments of the company's long-distance network.

Verizon's iobism Service and Verizon One Device

To more immediately deliver additional benefits of broadband-based technology convergence to the marketplace, Verizon plans to launch new products and services in 2004 that give customers simple, seamless ways to integrate all their communications. These will include:

Verizon's iobism: The iobi (eye-OH-bee) service uses the power and intelligence of all the Verizon networks – wireline, wireless, data or IP – to link a customer's various communication devices into one seamless, customized, personal communications network. It lets customers manage phone calls, voice mails, calendars, address books, e-mails and more, using wireline and wireless phones, computers, laptops and PDAs.

By using iobi, businesses and consumers will take total control of their communications. For example, what someone sends as a voice message from a landline or cell phone can be received as an e-mail or text message on a PDA or laptop, or redirected to a different phone line. As a smart network-based system, iobi knows where customers are and how they prefer to communicate at any given time and takes advantage of the information to make communicating easier.

Verizon will begin introducing iobi in 2004, adding new capabilities with each release. The planned capabilities include:

· Real-time call management – customers decide how, where and if they want to receive calls and messages

· Call notifications on PCs and the screens of other devices

· Programmable call-forwarding so calls can follow customers wherever they go

· Interactive call and e-mail logs

· Automated "on demand" or scheduled conference calling

· Electronic contact information-sharing that updates automatically

· Click-to-dial contact of people at the touch of a mouse

· Multi-modal communications -- no matter how a message comes to a customer, the customer can decide how to receive it, including by e-mail, voice mail, text messaging and more

Verizon One: Verizon One combines a DSL modem and wireless router with a touch-screen computer and a contemporary, cordless telephone. Verizon One clears away the clutter of multiple devices, and is configured for iobi service to put the power of Verizon's networks at users' fingertips anywhere in their homes.

Customers can use Verizon One to:

· Call with one click from their address book or online directory assistance

· View information such as weather, movie show times or news

· Scroll through Verizon SuperPages.com to look up and call phone numbers

· View maps and driving instructions

· Use a memo pad to leave notes for the family

· Manage calls as they are received

· Use voice mail more efficiently

· Forward calls in real time, or on a pre-set schedule

· Manage contact lists and calendars

Verizon plans to introduce an initial version of Verizon One later in 2004.

Verizon Key to Delivering Benefits of Convergence

<

 Privacy Policy | Site Map | Home

verizon

RBC Capital Markets Telecommunications Conference

Tom Bartlett

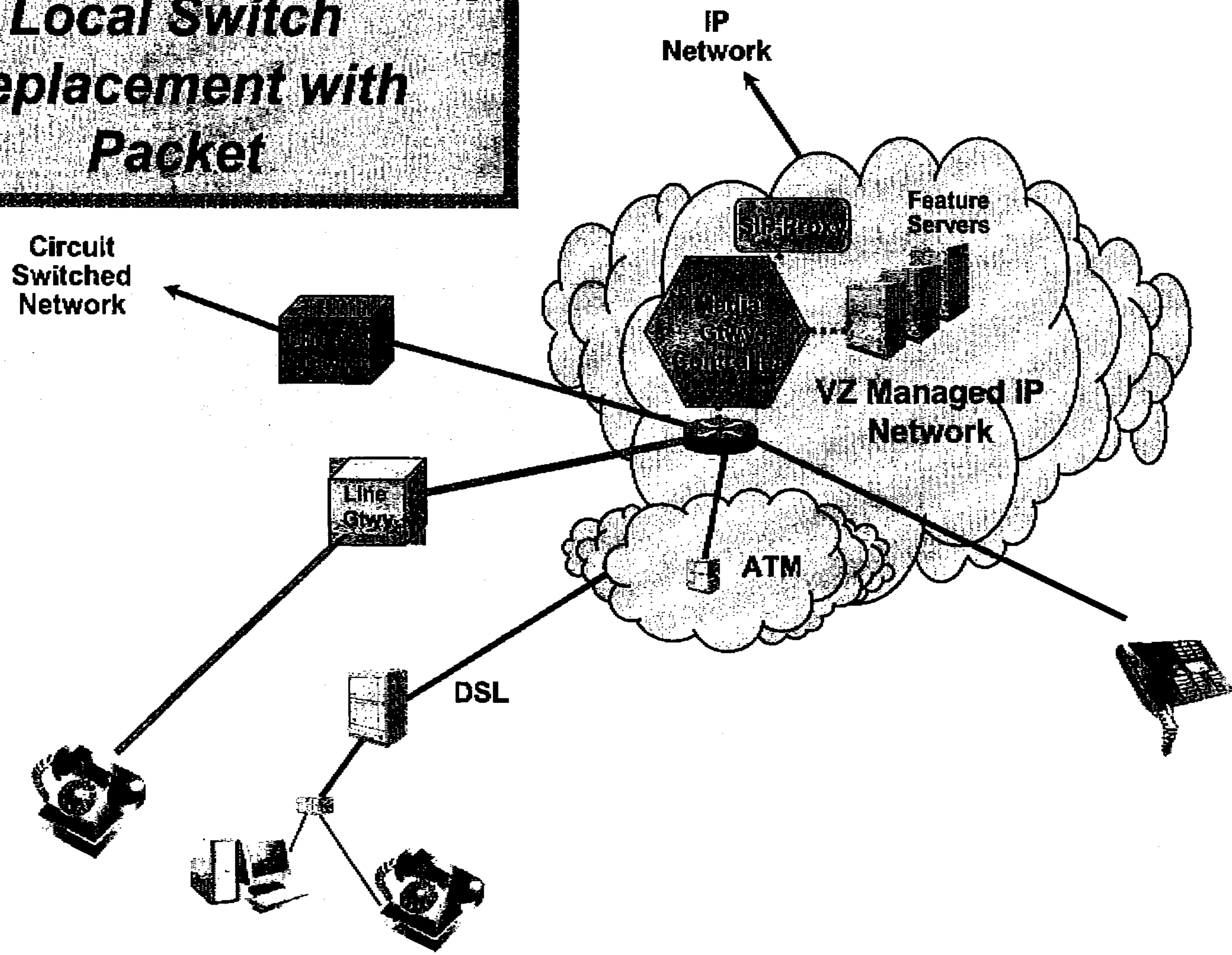
February 5, 2004

2004 NETWORK INITIATIVES

The Move to Packet Telephony

verizon

Local Switch Replacement with Packet



Attachment 3

BT's NGN plans

NR0444 June 9, 2004

BT announces network transformation timetable

- Mass migration of customers from PSTN to IP based network to begin in 2006
- Majority of customers' PSTN services on IP network by 2008
- Trials of voice services on IP network and fibre to the premises announced
- Increase in customer choice, control and service flexibility

BT today set out the timetable for the transformation of its UK networks. It announced a five year programme to underpin the next generation of converged, multimedia communications services. Mass migration of customers onto the new network will begin in 2006 with the majority due to be completed in 2008.

BT's 21st century network (21CN) programme will create the enabling infrastructure for the growth of BT and the UK telecommunications industry. It is set to completely transform BT's networks, delivering increased customer choice and control.

BT Wholesale chief executive Paul Reynolds said: "The 21CN programme will deliver our vision of a converged, multimedia world where our customers can access any communications service from any device, anywhere - and at broadband speed.

"21CN will drive a radical simplification of BT's operations including significantly lower costs and the capability to launch new services to market faster than we can today. It will empower all our customers, giving them control, choice and flexibility like never before."

The major elements of BT Group's overall strategy including ICT, mobility, broadband, netcentricity and portfolio transformation are underpinned by the 21CN initiative.

Over the next five years 21CN will transform BT's business and its cost base, removing duplication across the current multiple service specific networks and creating a single multi-service network. Total capital spend on the 21CN transformation will be within the previously announced BT capital expenditure envelope of £3 billion per annum. From this year about two thirds of the annual spend is directed to 21CN and other new and intermediate technologies and this proportion is expected to increase. That investment in future infrastructure will enable BT to deliver growing cash savings which are expected to amount to £1 billion per annum by 2008/9.

An early deliverable of this transformation is the first phase of the migration of services from the existing UK public switched telephone network (PSTN) to a multi-service internet protocol (IP) based network which will carry both voice and data services.* As a precursor to large scale migration of voice and other PSTN based services from 2006, the first stage will involve the bypass of the core PSTN network link between two major network nodes at Cambridge and Woolwich. An extension is planned later to Faraday exchange in London.

An initial 1,000 customers served by local exchanges connected to Cambridge and Woolwich will trial end to end voice and data services over the core IP network link.

Paul Reynolds said: "Today the 21CN vision starts to become reality. This is among the most important and ambitious infrastructure transformation programmes in communications anywhere in the world and will put Britain at the forefront of communications innovation.
"But 21CN is more than a next generation network. It's about providing and supporting the next generation of services for all our customers; it's about supporting and generating revenues and profits for shareholders, and it's about supporting and delivering for the communications industry and the economy as a whole."

In addition to making broadband available from exchanges serving 99.6 per cent of people by summer 2005, BT is aiming to have broadband dialtone available to most of its customers in the UK in five years time. Customers will be in control of their own services and will immediately be able to switch the line to broadband use themselves without requiring physical work at the exchange, whatever device they use to access the broadband network.

BT also today announced trials to test the technical and commercial issues associated with the possible deployment of fibre optic cable in the UK local access network. These limited trials are looking particularly at the economics associated with providing services to new build and greenfield site developments.*

BT is today formally launching the procurement process to select long term suppliers, which may not necessarily be those involved in the trials and early implementation stages. Contracts for the main rollout phases will be awarded following a formal competitive tendering process which will be concluded by the end of 2004.

Note to editors:

* For details of the trial migration of voice services onto an IP based network and the fibre to the premises trial see BT news release NR0445 issued today June 9, 2004.

Photographs of Paul Reynolds, BT Wholesale chief executive, and 21st Century Networks related images are available via BT's picture library hosted by Vismedia at www.vismedia.co.uk

A live webcast of BT's press conference will be available at 10.30am British Summer Time June 9, 2004, at www.btplc.com/presentation.

Forward-looking statements - caution advised

Certain statements in this press release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: transformation of BT's networks and cost base; benefits to customers of the 21CN programme; anticipated capital spend on 21CN transformation and expected cash savings; timescales for delivery of 21CN; and delivery of instantly available broadband.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic and financial markets conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas; technological innovations; developments in the convergence of technologies; and the anticipated benefits and advantages of new technologies, products and services, including broadband, not being realised. BT undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

About BT

BT Group plc is the listed holding company for an integrated group of businesses providing voice and data services in the UK and overseas, particularly in Europe, but also in the Americas and the Asia Pacific region. British Telecommunications plc, a wholly-owned subsidiary of BT Group plc, holds virtually all businesses and assets of the BT group.

BT is one of Europe's leading providers of telecommunications services. Its principal activities include local, national and international telecommunications services, higher-value broadband and internet products and services, and IT solutions. In the UK, BT serves over 20 million business and residential customers with more than 29 million exchange lines, as well as providing network services to other licensed operators.

BT consists principally of three lines of business:

- BT Retail, serving businesses and residential customers and including BT Openworld, one of the UK's leading ISPs.
- BT Wholesale, providing network services and solutions within the UK, including ADSL, conveyance, transit, bulk delivery of private circuits, frame relay and ISDN connections.
- BT Global Services, BT's managed services and solutions provider, serving multi-site organisations worldwide. Its core target market is the top 10,000 global multi-site organisations with European operations.

There are a number of other businesses within the BT group, including BT Exact, an internationally renowned centre of excellence in IT and networking technologies. It is also BT's technology and research and development business.

In the year ended 31 March 2004, BT's turnover was £18,519million with profit before goodwill amortisation, exceptional items and taxation of £2,016million.

For more information, visit www.bt.com

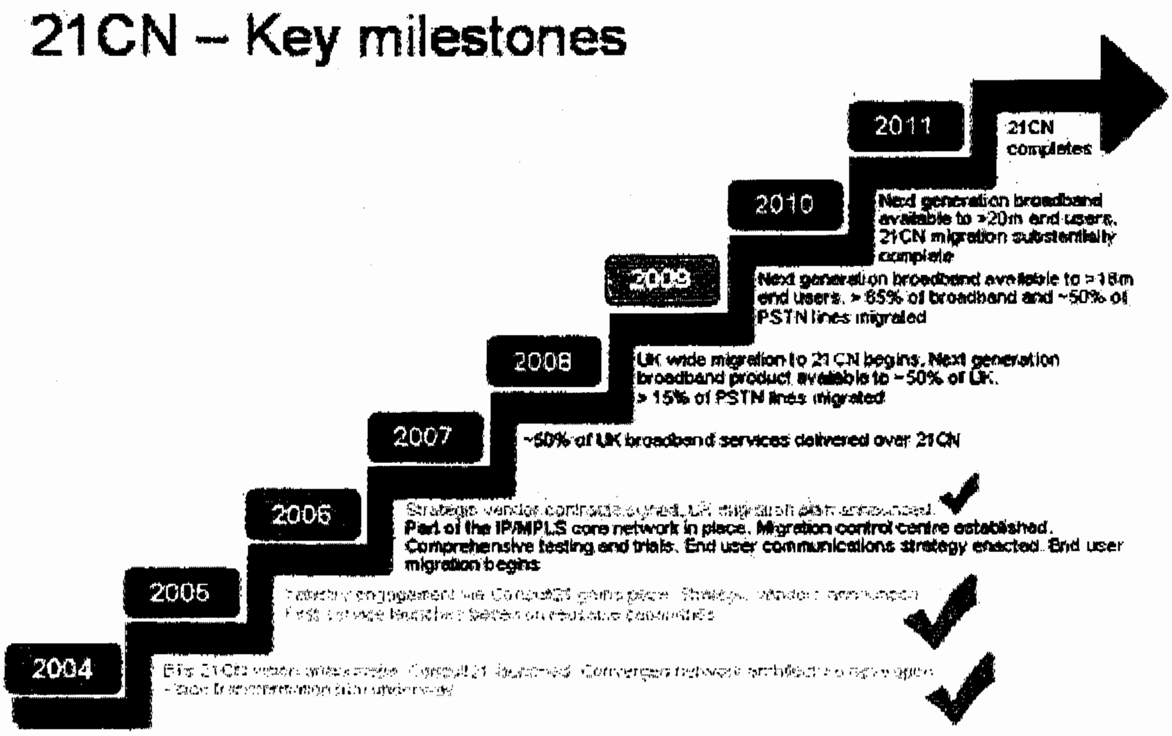
21CN - key milestones for the UK

BT announced its vision, strategy and proposed five-year timeline for 21CN in June 2004, followed by the announcement of its preferred strategic technology suppliers for the programme in April 2005.

BT will be rolling the new network out to a regional concentration of some 350,000 customers for the first time in Cardiff and the surrounding area. The experience and customer feedback we get from the first phase of customer migration in the Cardiff area will help us to finalise these plans. The key consideration in this process is to ensure that 21CN meets the needs of operators, service providers, businesses and consumers alike.

Details of the planned rollout programme for the UK was released in September 2006. BT confirmed that Northern Ireland, Scotland, Wales and each of the English regions will benefit from £100s of millions of direct 21CN investment and regional development organisations will be encouraged to get ready to capitalise on the opportunity that 21CN presents for the benefit of the people that live there and businesses that operate there. BT believes it is the only operator in the world to commit to a planned national rollout of a next generation network for all - including customers in remote parts of the country.

Migration will be underway in all regions of the UK during the initial phases of national migration which starts in January 2008. One of the benefits is a new generation of broadband with speeds of up to 24 Mbit/s - triple the fastest speeds currently available for most UK customers. The prioritised broadband migration will be underway in all regions by October 2007. This will maximise the early customer footprint for the launch of this wholesale service in January 2008 when we expect it to be available to around half the UK.



Attachment 4

France Telecoms NGN plans

IT & Network strategy and update

Jean-Philippe Vanot
Networks, Carriers & IT
Executive Vice President

January 19th, 2006

Agenda

- ➔ Recent developments
- ➔ IT&N mission and objectives within NExT
- ➔ Evolutions in technology
- ➔ 2008 vision and strategy
  - Network
  - IT
- ➔ Conclusion

NGN implementation has started in 2004

➔ **Currently underway**
- ✓ FT currently operates a VoIP /ToIP and visiophony infrastructure for Residential and Enterprise markets in France
- ✓ Residential VoIP service opened in 2004
- ✓ ≈ 500,000 VoIP residential customers in September 2005
- ✓ IP-VPN for VoIP transport offered by Equant

➔ **The benefit is cost reduction**
- ✓ Common IP backbone network, GigaEthernet and ATM aggregation networks and enhanced multiservices DSLAMs

➔ **Access to Service Platforms is today through H323 protocol, and is planned by mid 2006 to migrate to Session Initiation Protocol (SIP)**

➔Complying with new industry standards in view of future multimedia services beyond pure voice

NGN with IMS implementation will start in 2007

➔ **What it is**
- ✓ IMS (IP Multimedia Subsystem) will provide common control layer for fixed and mobile network and services
- ✓ Standardized by 3GPP, ITU and ETSI

➔ **Currently underway**
- ✓ Specification
- ✓ Evaluation of « Application Servers » providing multimedia and Fixed/Mobile service continuity to Enterprises

➔ **The additional benefits**
- ✓ Enabling the product factory for network-native convergent services
- ✓ Further cost reductions
  - ➢ Control and transport of media flows of any nature and origin, including conversational flows

➔FT's IMS enables fixed/mobile convergent networks and services