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The Manager

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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Chairman and Chief Executive Officer Annual General Meeting presentations**

In accordance with Listing Rule 3.13.3, I enclose the presentations of the Chairman and CEO, which will be delivered today at the Telstra Corporation Limited 2009 Annual General Meeting.

Regards

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

**Carmel Mulhern**  
Company Secretary

Good morning ladies and gentlemen.

I'm Catherine Livingstone, the Chairman of your company, and on behalf of my fellow directors I am pleased to welcome you to the 2009 Telstra Annual General Meeting.

I also welcome shareholders viewing today's proceedings on our Investor Relations website.

A quorum is present and I declare this Meeting open.

Before I begin my address – and reflecting on the video we have just seen – I would particularly like to acknowledge all the Telstra employees who made such a difference in the aftermath of the Black Saturday fires, and the floods in Queensland and northern New South Wales.

Keeping communities on the air during floods, or after fires, requires a huge commitment, and often personal risk, by technicians and support staff in the field.

The men and women who made that commitment deserve our thanks.

Let me now introduce Telstra Board members, senior executives and the company's auditor.

Also joining me on the stage is Carmel Mulhern, the Company Secretary.

I will now ask your directors to introduce themselves individually.

*[Each director, excluding David Thodey, to introduce himself]*

We welcome our three new directors, all of whom add to the diversity of skills around the Board table.

I would like to thank all my fellow Directors for their significant individual and collective contributions to the Board.

I also acknowledge Telstra's Executive Leadership Team – members of which are seated in the front row – and thank them and all of Telstra's employees for their considerable efforts over the past year.

Welcome also to Sean Van Gorp, Will Walford and David McGregor, from Ernst & Young, our external auditors.

## **BOARD**

I would also like to take this opportunity to thank Peter Willcox, Charles Macek and Donald McGauchie for their years of service to the Board.

- Peter joined in 2006, and made a very important contribution during his time with us – serving on our Audit, Nomination, Remuneration and NBN Committees.

- Charles has served the Board with unstinting dedication for more than eight years – during which time he chaired the Remuneration Committee and strongly advocated the linking of executive pay to company performance.
- And Donald – my predecessor as Chairman – served and led the Board through a decade of immense change – playing crucial roles in the establishment of Telstra Country Wide, the Transformation Investment of the past four years, and the full privatisation of the company, culminating in T3.

I would also like to congratulate David Thodey – from whom we will hear shortly – on his well-deserved elevation to Chief Executive Officer.

David has both a fundamental grasp of technology and a deep appreciation of customer needs – a rare combination of attributes ideally suited to the future direction of Telstra.

## **PROCESS**

There are four items of business on today's agenda:

1. Chairman and CEO presentations.
2. Adoption of the Remuneration Report.
3. Discussion of financial statements and reports.
4. Election and re-election of directors.

The Board has received in excess of 1,000 questions in advance from shareholders, with the main themes covered being Board renewal, remuneration, the National Broadband Network and the Government's proposed separation of Telstra, and customer service.

David Thodey and I will respond to these main themes in our formal addresses this morning.

I have already touched on Board renewal – and will shortly address remuneration, NBN and the proposed separation of Telstra.

David will address customer service, as well as deliver a financial report and outline of your company's forward outlook and strategy.

Following David's address, I will take questions from the floor on the items of business on today's agenda.

To ensure we can represent the views of all shareholders – including those who have lodged proxies – I will call a poll in relation to agenda items 2 and 4.

No resolution is required in relation to Item 3.

I will now open the poll so that those of you who need to leave early, can take the opportunity to vote by completing the voting section on the reverse of your yellow shareholder card and placing it in one of the ballot boxes near the exits to this room.

In the interests of the comfort of shareholders, we will have light lunch available in the foyer around 12:15pm.

## **REMUNERATION**

Moving now to remuneration.

One of my tasks today is to present the Remuneration Report.

Before I do so, let me say this about 2009: we achieved good results in difficult times.

- We achieved revenue growth – at a time when many organisations have reported revenue contraction,
- We managed our liquidity – we haven't needed to call on shareholders for additional funds,
- And we maintained shareholder dividends.

I again want to thank the senior executive team – and all Telstra employees – for achieving this performance in difficult circumstances.

Telstra's remuneration philosophy is designed to underpin such performance by rewarding behaviours focused on the achievement of the company's strategy and business objectives, and linking remuneration to the creation of shareholder value.

Senior executive remuneration is made up of fixed and at-risk components, with the majority being at-risk, and tied to performance targets in both Short Term and Long Term Incentive plans.

In relation to fixed remuneration, given the global financial crisis and having regard to prudence, the Board has decided to freeze the fixed remuneration of all members of our senior executive team for 2009-10 – except where they have been promoted into a new position or have had a significant increase in the scope of their responsibilities.

In relation to short term incentives, or STI, the awards to senior executives were significantly lower in 2009 than 2008 as Telstra did not meet its aspirational revenue targets.

That is not to say our senior executive team did not perform – they delivered strong results in difficult circumstances.

However, the Board believes, that, in order for at-risk remuneration to be fully earned, aspirational targets need to be met – and we make no apology for having high aspirations.

A one-off short term bonus has been introduced for all employees in the 2009-10 year, tied to improving the service to customers, and to be evidenced by independent, third party surveys of

customer satisfaction. In subsequent years, customer satisfaction measures will be part of the standard STI plan.

From a Long Term Incentive – or LTI – perspective, again we have aimed to link performance with incentive payment.

The LTI is determined 50% by reference to a total shareholder return, or TSR, hurdle and 50% to a return on investment, or ROI, measure.

Based on feedback from shareholders, the fiscal 2009 LTI plan now incorporates a relative TSR measure rather than an absolute TSR measure.

An international peer group of large telecommunications companies has been adopted for benchmarking this measure.

Further information regarding the fiscal 2009 LTI plan, as well as updates on previous plans, are detailed in the Report.

Now, moving to the departure of the previous CEO:

As the market was informed on February 26 this year, Sol Trujillo left Telstra by mutual agreement.

Mr Trujillo's termination payment of \$3 million – the equivalent of 12 months' fixed remuneration – was strictly in accordance with the terms of his contract which was fully disclosed to the market on his appointment in July 2005.

Mr Trujillo's fixed remuneration under that contract remained unchanged from 2005 until the date of his departure.

It is important to note that the remuneration structure – including at-risk components – of our new CEO, David Thodey, is fully aligned with that of the senior executive team.

David's contract was disclosed to the market at the time of his appointment and is based on a fixed remuneration component of \$2 million.

Finally, to non-executive Director fees – these have been frozen at July 2008, levels – and will remain so until at least 2010-11.

On behalf of the Board, I commend the Remuneration Report to the Meeting.

**NBN**

Turning now to the question of the NBN:

Shareholders, this AGM comes at a critical time in the history of our nation, our industry, and our company.

Australia is confronted by the interrelated challenges of globalisation, population and climate change.

We need to be more competitive internationally and more sustainable domestically.

The National Broadband Network – or NBN – has been identified by the Federal Government as one solution to these interrelated challenges ...

.. because it is a platform that could help us, by driving innovation across government and across business – and for the benefit of the community.

Telstra understands this need:

That's why we support the NBN vision ...

.. and that's why we are committed to working constructively with the Government to get it right with this critical piece of telecommunications infrastructure.

We do, however, take issue with the Government's assertion that the Australian telecommunications market lacks competition.

On the contrary, the 2008 data from the Australian Communications and Media Authority indicates that there are currently 172 licensed carriers in Australia, with 17 new entrants in the last year, four (now three) mobile carriers and more than 670 internet service providers.<sup>1</sup>

However, what the market does need is further investment.

Telstra is the one telecommunications company, with not just the capacity to invest in transformational technology, but the will and the track record.

For instance, in the five years to June, 70% of all capital investment in the sector was made by Telstra.

Telstra invested \$4 billion in wireless technology between 2002 and 2008 and created the Next G network using 850 MHz spectrum.

The question needs to be asked – would our competitors have made the necessary investments in next-generation technologies, such as the 3G network, without Telstra's leadership?

Will they invest in a nationwide 4G network if we are constrained in the mobile market?

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<sup>1</sup> Australian Communications and Media Authority, *ACMA Communications Report 2007-08*, November 2008, pp. 23-24

The point I am making, is that Telstra is a great Australian company with a strong track record of investing in the technologies needed to build a more connected Australia ...

.. and this should not be forgotten when we are debating the future of the NBN.

The Board's view is that maintaining a healthy Telstra is in the best interests of ongoing innovation and investment in the sector in general, and of the NBN in particular.

Without parallel investment of the magnitude undertaken by Telstra, the NBN will fall short of its potential.

## **SENATE**

With that in mind, let me now address the proposed separation of Telstra.

On September 15, the Federal Government unveiled new legislation affecting Telstra.

This legislation gives Telstra a choice:

Either we choose to structurally separate our business, as well as divest our HFC and FOXTEL investments – and, thereby, gain access to the wireless spectrum we need to build a 4G network;

Or we will be required to functionally separate our business – and be barred from gaining access to spectrum needed to upgrade the Next G network to 4G.

And what does functional separation mean in practice?

No one can say, precisely, as it would be at the Minister's discretion.

What we do know is that, if the U.K. approach is adopted, it would force us to pull apart the new IT systems we have just built as part of transformation – and would cost anywhere between \$500 million and \$1.2 billion and take at least five years.

Our concerns were spelled out in our Senate submission on the legislation.

In that submission – copies of which are available here at the registration desk or online from our investor website – we outlined several concerns, including the fact it would:

- Impede the achievement of the NBN vision – because it makes it harder to reach agreement on the NBN and Telstra's resources could, for years, be consumed by functional separation;
- Reduce competition – leading to a mobiles duopoly if we can't access 4G, and a concentration of ownership in Pay TV if we are forced to divest FOXTEL;
- Harm consumers – particularly those in rural and remote Australia as they would likely miss out on an upgrade to a 4G wireless network;

- Provide the ACCC with expanded powers unparalleled in any other industry – and those powers, it should be noted, are not needed for the NBN implementation;
- Destroy value for the 1.4 million Australian shareholders who own Telstra shares sold by the Government over the past 12 years – not to mention the millions of other Australians who hold Telstra shares indirectly via their super funds.
- And have a significant detrimental impact on our employees – by causing upheaval and uncertainty within the company, and fewer investment and employment opportunities.

Let me assure you that, while we are looking at all reasonable options given the reform process underway, the Board and management of Telstra will continue to have the interests of the company and shareholders as our overriding priority.

I would also like to take this opportunity to thank many of you for sending emails and letters of support to the company.

And I acknowledge the efforts of those of you who made submissions to the Senate inquiry.

Shareholders, Telstra will continue to negotiate in good faith with the Government.

We want to find a mutually acceptable solution.

If the Board does ultimately propose a significant change to the nature or scale of Telstra's business in connection with the NBN, then – subject to the required regulatory approvals – the Board intends to seek shareholder approval.

## **GROWTH**

Let me also assure you that the Board and management of Telstra will not be distracted from our vision to grow the business –

By continuing to invest in all our core platforms,

By taking advantage of this investment to provide innovative product solutions,

And by improving customer satisfaction.

Telstra is a great Australian company – and the NBN will not change that fact.

We are continuing to create new ways for our customers to access information and content. David will update you on this in his address.

And, unlike the NBN's still theoretical benefits, Next G is having a positive impact on Australia's productivity right now in sectors as diverse as health, education, security, agriculture and mining, which are innovating around the Next G platform.



## **CONCLUSION**

In conclusion, let me say this:

The NBN in and of itself will not change anything.

It could change the way we live and work in ways we cannot now imagine – if we get it right.

However, the transformation our nation needs to overcome the challenges it faces will come from the innovations enabled by platforms like the NBN.

We believe it is not just in the interests of shareholders, but also in the national interest, to ensure that, whatever changes are made to the telecommunications sector, the need to encourage ongoing innovation and investment is not forgotten.

For the NBN to succeed, Australia needs companies that are not just capable of, but willing to, invest in next-generation technologies.

Shareholders, your company is that kind of nation-building company.

Telstra is that kind of company.

And we are determined to keep making a difference.

I will now hand over to Telstra's Chief Executive, Mr David Thodey.

## INTRODUCTION

Thank you, Catherine.

Good morning.

I want to begin by saying how pleased I am to be here for the first time to talk to you, the shareholders of Telstra, as CEO.

As Catherine said, this is an important time for Telstra ... and I take the responsibility of leading this company very seriously.

Thank you for the many letters and emails of encouragement.

This morning, I would like to talk to you about a number of topics:

- Our financial results and a little about our strategy moving forward,
- Our focus on customer service,
- An exciting new product that will reinvent the home phone,
- The National Broadband Network and proposed regulatory changes.

I have been CEO now for almost six months – but it seems much longer because so much has happened ... with so much uncertainty ... that I wanted to start by making a couple of points:

1. Firstly, I see tremendous opportunities for our company – though they may now be different to what we expected 12 months ago.

There are many challenges but the demand for our products and services remains strong ... for example:

- The data on our world-class Next G mobile network is doubling every 8 months,
- The volume of data on our Next IP network is doubling every 20 months.

There are few industries in the world that enjoy this type of demand for their products.

2. Secondly, my role as CEO is to be both an advocate for ... and to serve ... our shareholders, customers and employees. At the heart of the Telstra culture is an incredible commitment to serve the communities in which we work.

There is no other company in Australia that interacts with the people across this nation like Telstra does:

- We visit 25,000 homes a day, half a million a month;
- We receive 1.3 million calls to our call centres every month;
- And, thousands of people visit our shops every day.

Telstra has enormous capability:

...we are one of the top telecommunications and media companies in the world.

...we have wired Australia with more than 6 million kilometres of fibre – enough to reach to the moon and back 8 times.

...we have the largest and fastest integrated wireless and wireline broadband networks in the world with NextG and Next IP.

...we are a technology and engineering leader and we have enormous scale

.....however, AT OUR HEART, WE HAVE ALWAYS BEEN AN ORGANISATION THAT AUSTRALIANS HAVE RELIED ON TO GET CONNECTED AND STAY CONNECTED.

We have always been part of the community we serve.

This is a position of trust that we must never lose ... and we must earn the right to retain that trust every day.

And that commitment to service is not just our heritage.

**THIS MUST BE OUR FUTURE AS WELL.**

## **STRONG FINANCIAL RESULTS FOR 2009**

Let me now briefly turn to our financial results for last year before I talk more about customer service.

Four years ago we embarked on our transformation program – making a once-in-a-generation investment in new systems and networks.

We are in the final stages of that \$12 billion transformation, and it has already delivered \$5 billion in new revenues compared to consensus forecasts in 2005.....and it must deliver more benefits in the future.

As a consequence, we are in a strong position – as the financial results in 2009 demonstrated.

These results were announced to the market in August, but are worth reflecting on briefly:

- Sales revenue grew by 2.9% – to \$25.4 billion,
- Profit after tax increased by 10.3% – to \$4.1 billion,
- And free cash flow increased 13.2% – to \$4.4 billion.

And we have been able to maintain our dividend at 28 cents per share.

It is also worth noting how our product mix has changed since 2005.

An important fact to focus on is that revenues from our mobile business now exceed revenues from the Public Switched Telephone Network – or PSTN.

Our mobile revenues represent 27% of our revenues and the PSTN only represents 25% – this is a significant change given our history as a fixed network telecommunications company.

Our retail segments also performed well.

Total retail revenue grew by 3.4% – and our international businesses grew by almost 14% ... but off a lower base.

Our consumer segment improved its growth in the second half of the year, compared to the first half.

In the small and medium size business market, our customers have had a tough 12 months due to the Global Financial Crisis.

Despite that difficulty, sales revenue grew by 4.7% last year – which is an outstanding result.

In the enterprise market we had some great wins – such as –

- A 10-year contract with the Commonwealth Bank of Australia worth up to \$1 billion,
- A \$146 million broadband contract with the Catholic Church,
- And selling the IT services company, KAZ Group, to Fujitsu for \$200 million.

The enterprise market continues to show strength.

## TELSTRA STRATEGY

2009 was a strong year for Telstra.

But that was last year.

We now need to look ahead.

Our strategy is very simple – “It is about serving our customers better than anybody else”.

At this time our company needs stability and continuity – we need to focus on what we do best – focus on our core business – *providing communications services and serving our customers.*

Our growth strategy is focused on three key areas:

- INVESTING in new capability,
- SATISFYING the needs of our customers, and
- GROWING in core areas.

We must continue to invest to drive innovation and differentiation in all our products and services.

But the best way we can create financial value for you, our shareholders, is by focusing on our core business – and rediscovering our core institutional values around service.

## **SATISFY THE CUSTOMER**

Let me now talk about our customer service strategy – satisfying the needs of our customers.

We have set a goal at Telstra: We want to have the best customer satisfaction rating in the industry within three years ... as measured by our customers.

Achieving that goal won't be easy.

It will require hard work across our entire business.

It will demand the dedication of all our employees.

And it will take time.

But it **CAN AND MUST BE ACHIEVED.**

The bottom line is this: Our customer service is not good enough and must improve.

The good news is we've begun our journey.

- Establishing the Office of the Customer,
- Setting new standards for customer responsiveness and complaints,
- Making every employee personally responsible for improving customer service,



- Setting a company wide target for Customer Satisfaction as measured by the voice of the customer,
- Starting to re-engineer and simplify our core processes.

Closely aligned to customer service is corporate responsibility. I will be personally launching our annual corporate responsibility report in two week's time ... and will have more to say then about this critical area.

Now, I can't mention corporate responsibility or customer service, without addressing an issue that has generated significant publicity and commentary.

I'm talking about the \$2.20 administration fee we introduced in September for over-the-counter bill payments, as well as bill payments made through the mail.

I believe encouraging our customers to pay their bills electronically is the right thing to do.

Right for our customers. Right for the environment. And right for our business.

However, I made a mistake ... we should not have implemented this change in the way we did, and so I have decided to scrap the charge.

It doesn't matter if others in the industry charge these fees.

We tried to impose this change without first listening to the people it would affect.

That is not consistent with my commitment to put customers at the heart of everything we do.

It's not the sort of company Telstra wants to be.

That's why I want to confirm that we announced earlier today that the \$2.20 administration fee will be scrapped – and we will automatically refund all fees paid by our current customers since the new charge was introduced.

It will take a few months for those refunds to be rolled out through our billing system and credited on our customers' bills, so please be patient.

And if you have any issues, please call us.

That being said, I still believe electronic payment is the right way to go ... and we do intend to introduce some 'electronic' only plans in the future ... but it will be your choice if you want to use them.

We will also continue to encourage our customers to make the move – for instance, if customers sign up for direct debit before the end of December, they will receive up to \$50 Cash Back on selected Telstra Shop product purchases.

Customer service is very important for us ... and while we have many areas where we can improve ... we are committed to making the necessary changes.

This will take time – so please support us as we implement these changes.

## **THE EVOLUTION OF THE PHONE**

Let me now turn to innovation ... the first element of our strategy.

As I said earlier, Telstra has a proud heritage – going back to 1901 – of keeping Australians connected to each other and the wider world.

When Alexander Graham Bell – who invented the telephone in 1876 – visited Australia in 1910, many of the technicians he spoke to were from the Postmaster-General's Department.

They were Telstra people.

We have a long history of investing in new technology.

And – just as we were driving the rollout of the telephone across Australia when Alexander Graham Bell came to visit – we are leading the rollout of a new generation of phones.

It's called the T-Hub.

## **T-HUB**

T-Hub – which is designed to work exclusively with the Telstra network – reinvents the home phone.

In fact, T-Hub is much more than a telephone.

It's all about making it easier for Australians to do what they want, when they want.

Besides making fixed-line phone calls, T-Hub allows you to:

- Search the Yellow Pages online,
- Send SMS to mobile numbers on the Telstra network and to most Australian fixed numbers,
- Check the weather forecast or latest news,
- Or schedule family events and appointments on the electronic calendar.

T-Hub can also be used as an electronic photo frame or internet radio.

In short, this is about making home phone technology easier to use.

T-Hub is in the T [life] store at the AGM today. If you like what you see, this is your chance to be the first customers in Australia to register your interest before it hits the shops early next year.

## **NBN AND REGULATION**

Catherine has already spoken to you about the National Broadband Network and the proposed separation of Telstra.

It is important to understand that much of our discussions at present are confidential and are covered by non-disclosure obligations.

We remain positively and constructively engaged with the Government on the issue of NBN, but we are under no illusions as to the challenges we face.

This is an extremely complex negotiation as it covers so many different aspects of our business.

Our dedicated negotiating team – led by Geoff Booth – is also working closely with the NBN Co on a wide range of commercial issues.

Can I promise that a mutually acceptable agreement will be reached? No.

Do I think there is a pathway to such an agreement? Yes.

What I can assure you is that the Board and management will NOT agree to any proposals on the NBN ... or separation ... unless we are convinced that it will deliver fair value for you – the shareholders of this company.

Furthermore, whatever the outcome of the negotiations, whatever the future shape of the industry, Telstra has the core assets we need to win in the market.

## **GUIDANCE**

Before I conclude, let me say a few words about our guidance.

I want to reiterate that the guidance for the year we provided in August – and outlined at Investor Day last week – still stands.

We expect continued top and bottom line growth and free cash flow of \$6 billion this financial year.

As we said last week, our top line growth guidance has come under some pressure from the strength of the Australian dollar, as you would expect.

While this is something of a wash at the profit line, we would expect it to have some impact on our top line revenue growth.

Let me again remind you that the guidance also excludes the impacts of any Government regulatory review or NBN outcomes.

Also, this excludes any unexpected outcomes from any ACCC wholesale pricing determinations.

## CONCLUSION

In conclusion ... these are challenging times for our company, our industry and our nation.

A lot has happened in the last 6 months – and we still have significant work to complete in the coming months.

We must grasp the opportunities in front of us.

That means focusing on our core business – focusing on our customers – and the core values of Telstra.

There is much to be done – so many opportunities to create a better Telstra and Australia – and that's why I'm motivated by our future prospects.

It's all about continuing to focus on our customers.

It's all about serving them better than anyone else can.

It's all about being the Telstra that people can rely on and trust.

It is about investing in new technologies.

Your company has a wonderful platform from which to grow ... we have world class networks ... We have wonderful people with deep skills and capabilities ... and we have a connection to this nation unlike any other company.

Telstra has always been ... and always will be ... a great Australian company.

We must remain focused on our key priorities:

- Focused on serving the many communities we support around Australia,
- Focused on improving our customer service, and
- Focused on delivering innovative products and services that will make Australia an even better place to live and work.

This is all about CREATING VALUE ... CREATING VALUE FOR YOU ... OUR SHAREHOLDERS ... OUR CUSTOMERS ... and OUR STAFF.

Thank you.