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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Transcript from Investor Day

I attach a copy of the transcript from the Telstra Investor Day held on Thursday 17 November 2016, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

TELSTRA INVESTOR DAY 17 NOVEMBER 2016 - TRANSCRIPT

SESSION 1

MR P. KOPANIDIS: Good morning everyone and welcome. My name is Peter Kopanidis and I'm Telstra's Head of Investor Relations. On behalf of Telstra, I welcome you all, both here in Sydney and those joining us via webcast to our second investor day for 2016. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first people. Today, therefore, I would like to acknowledge that we met on the traditional land of the Gadigal People of the Eora Nation, and pay my respects to elders, both past and present. We have a number of Telstra executive team presenting today, including our CEO, Andrew Penn, and CFO, Warwick Bray.

Andy will provide you with background on all our speakers during his session. We will split our agenda today into three sessions with Q&A from investors, analysts and media to follow after each session. If we run out of time in the Q&A, we will sort of try and put those questions into the next block of Q&A. We've got a reasonably tight agenda today. We will take a short break after the second Q&A session. With that, I will hand over to our first speaker, our CEO, Andrew Penn. Good morning, Andy.

MR A. PENN: Well, thanks very much, Peter, and good morning everybody and welcome to Telstra's investor day briefing. Before I commence, as Peter mentioned, I would like to introduce some of the executive team that are here with me today. As we've made some changes to the senior executive team at Telstra since my appointment and I'm very pleased with the strength and depth of the team that we have today. Let me start with our Chief Financial Officer, Warwick Bray. You all know Warwick and you will be hearing from Warwick shortly. Someone that you will not yet have had a chance to meet in the context of an investor presentation is Stephen Elop. Stephen is sitting there in the second row. Stephen joined us as the Group Executive Technology Strategy and Innovation in April of this year and he has been working very closely with both myself and the rest of the management team on the development of the strategy and the program of investment that we will be discussing this morning. Stephen will be known to you through his very senior executive roles at both Microsoft and Juniper in the US, as well as the Global Chief Executive of the Nokia Group.

Heading up Retail in the third row is Kevin Russell. Kevin also joined us in April of this year. He's a well known and respected leader in telecommunications, having held senior roles with Optus, as CEO of Consumer in Australia, as well as senior positions for Hutchison in Australia, Hong Kong, the UK and elsewhere around the world.

David Burns, also here with us this morning, heads up our Global Enterprise and Services business. David has been with Telstra for five years and you will know him most of all for his significant role in growing our NAS business and improving the profitability of our NAS business. Brendon Riley you know very well. Brendon is currently in the role of Chief Operations Officer and was formerly Group Executive

Global Enterprise Services. Finally, heading up Wholesale is Will Irving. Will has been with Telstra for more than 20 years. He replaced Stuart Lee in the Wholesale role following Stuart's well deserved retirement after 45 years earlier this year.

Prior to this, Will was the Group Managing Director of our Telstra Business channel. Here also this morning, but not presenting, are Cynthia Whelan, Group Executive, International and New Business, Alex Badenoch, Group Executive HR, Tony Warren, Group Executive, Corporate Affairs, Carmel Mulhern, our Group General Counsel and Joe Pollard, our Group Executive for Media and Marketing, and Joe will be the senior executive that will be facilitating the discussions with the industry analysts this afternoon.

So turning then to the agenda and proceedings for today. I will start by giving you a sense of the developments that we have seen since the 2016 results. This will include some of the changes that we've been seeing in the market and the challenges and opportunities going forward. I will then talk you through some refinements to our strategy and provide an overview of the investment of up to $3 billion that we will be making into our core business. I will also make some comments regarding a review that we will be conducting over the next six to 12 months, of key capital allocation decisions, taking into account the changing economic dynamic of the business and also in response to feedback from the market. I will then hand over to Warwick, who will take you through the key economic dynamics for the business, including our productivity program. Warwick and I will then address, as Peter says, any questions that you may have from his and my presentation.

The next series of presentations will cover, in detail, the proposed investments of up to $3 billion that we announced in August. Brendon will address the investments we're making to build the network of the future and he will be supported in this regard by our very experienced head of networks, Mike Wright. Stephen Elop will take us through the program of work to enhance the digitisation of the business and Vicki Brady will then take us through the third leg of the program with a focus on customer experience, recognising at the same time that, of course, the investments that we will be making in the network and also in digitisation will of themselves, drive very significant customer experience improvements.

Vicki is also relatively new to the company. She joined us in June from Optus, where she was Managing Director, Marketing and Products, and Vicki, at Telstra, is the Group Managing Director of our Telstra Consumer channel, working closely with Kevin, and we're very pleased to have her here. At this point, we will take a break for questions, as Peter said, on those three presentations and then finally, in the final block, we will be providing you with an update in relation to our key customer facing business units, and that is Retail and Global Enterprise Services, where you will hear from Kevin in relation to Retail and David in relation to Global Enterprise Services.

David will also be supported by Michelle Bendschneider, who recently took up the role of Executive Director for Products for our Global Enterprise Services business. We will have one last Q&A session before wrapping up proceedings for the day.

So let me start by providing an update in relation to a number of key developments since our 2016 results. Firstly, I am pleased that we have continued to see strong performance in the market for Telstra in relation to customer acquisition and SIO performance. SIO momentum continues in both mobile and fixed. We're particularly pleased with our strong performance in relation to the launch of the iPhone 7, where we've sold almost 200,000 units with 65 per cent of those customers taking up higher value plans.

Mobile churn remains stable since results and our share in fixed continued to increase with new NBN connections in the September quarter at 54 per cent of the total market. Telstra TV passed its first anniversary since launch and now we have more than 530,000 Telstra TVs in the market. A pretty incredible result in literally just 12 months. Notwithstanding the strong performance in terms of customers and share, however, the competitive intensity has continued to have an impact on the economics of the business, but having said that, mobile ARPU declines have slowed and were flat in the September quarter, compared to the June quarter. We also continue to see growth in our underlying minimum monthly contribution rate.

Following the series of network interruptions that we experienced in the first half of the calendar year, we have seen a strong network performance in the second half. This is against the background of data volumes which continue to increase, driven by strong demand for media and streaming services. The $250 million remediation program that we announced in June is progressing well. Most of the key underlying initiatives have now been implemented and recovery times, particularly in mobiles, have been significantly reduced.

We have also continued to engage with independent experts in relation to the network resiliency and this has confirmed that we continue to have very strong network capabilities, when compared both locally and globally. Encouragingly, since June, our strong network performance and the launch of the new brand has seen positive trends in relation to NPS, brand consideration and perception measures generally.

On the productivity side, which Warwick will talk about further, we're seeing good productivity benefits flow to the bottom line through reductions in fixed costs. Following results, we, of course, completed the $1.25 billion off-market share buy-back, which was heavily subscribed and we will complete the $250 million on market share buy-back as we announced in August.

During the period we announced an additional investment of up to $3 billion and undertook further strategy work, leading to some important refinements to our strategy, which I will take you through in a moment.

Before I turn to each of these topics in detail though, I also should mention the announcement by the ACCC to conduct an inquiry into domestic roaming. As you can imagine, we are obviously very concerned regarding the impact that a declaration would have, particularly on all operators' incentives to invest and the negative impact that it would clearly have on customers in Australia, particularly in regional and remote areas.

Our current strategic investment program includes considerable ongoing investment in regional and remote Australia. This includes $350 million over the next three to five years to expand coverage and capacity for the last two per cent of the population geographically and this continues our historic practice of targeting about 15 per cent of our mobile network capital to the most remote corners of the network. It also includes $240 million in support of mobile black spots rounds one and two, and in addition, $100 to $200 million co-contribution fund where Telstra is willing to commit capital for projects jointly funded by community and other parties to support infrastructure investment that would not otherwise be viable on a stand alone basis. We've made a number of these investments recently such as with the Northern Territory Government. Also in Queensland with fibre to Birdsville, Burketown and Aurukun.

With the co-contributions for the mobile black spots as well as the co-contributions that would come to support the $100 to $200 million fund, this represents a projected investment of more than $1 billion dollars in regional Australia and remote coverage over the next four to five years. Let me be clear, this is the investment that would be uneconomical if mobile roaming were declared. We will obviously be making these representations through our submissions to the ACCC later this month.

So let me now turn to our strategy. As you have heard me say before, the rate and pace of technology innovation continues to accelerate. This has very significant implications for Telstra as a traditional telecommunications company. There are three drivers to this change. Firstly, the rapid expansion of mobility both in terms of the number of devices that are connected as well as the volume of data that is driven by media streaming and other mobile services. The second is the acceleration in the trend of businesses to shift their IT to the cloud; and, thirdly, of course, advancements in machine learning and artificial intelligence.

Together the growth of data from the increase in connected devices, with the ability to store that data and process that data in the cloud and apply machine learning, it is these features that are providing the opportunities to improve productivity and efficiency for businesses and solve many complex solutions. And as a result what we're seeing is that the traditional worlds of telecommunications and technology are converging and at the layer of the network we're seeing software playing an increasingly significant role in network design and operation. You will hear more about this from Brendon and Mike later.

We're also, of course, seeing the range of applications and services that sit above the layer of the network increase. These present opportunities for Telstra in areas such as network application services where we've already built a very significant business, in the Smart Home, in software-defined networks, and network function virtualisation, data analytics and, of course, the Internet of Things. And it's critically important that we build the capabilities necessary to compete in this world whilst continuing to invest in our core capabilities as a telecommunications company.

This also needs to take into account some of the current market dynamics. You have also heard me – you've already heard me reference the increasing competitive intensity in mobiles, in data and IP and in the fixed market with potential new entrants entering the NBN market. The rapid growth in demand for connectivity is putting pressure on all network operators to increase capacity. At the same time, of course, resiliency and redundancy is growing in importance for customers. To put this in perspective – and as you will hear from the network team later – only 20 per cent of the capacity in the network that we predict will be required by 2020 exists today. With the acceleration in the use of digital content, streaming services and increasingly complex applications, the need for network investments and the importance of network differentiation is only going to increase in the future.

The third area of significance, of course, over the next few years is the acceleration of the roll-out of the NBN. Now, whilst we've all known about the NBN for many years, to date 17 per cent of homes in Australia have been connected. On the basis of the current roll-out forecasts from NBN it is anticipated that the full roll-out will be completed by 31 December 2020, a little over four years from now. And, of course, the impact on Telstra is significant. As we reported earlier in the year, we expect the migration to NBN to have an ongoing negative impact on our EBITDA of $2 to $3 billion annually once the NBN is fully migrated. At the same time, of course, though, it is through this period that we will receive the one-off payments associated with the migration to NBN and an increase in the long term payment for the use of our infrastructure. It is these payments that will be important to our capital allocation decisions that I will comment on further shortly.

Finally, with the announcement of an inquiry into domestic roaming we continue to see an increase in regulatory risk. The ACCC has also announced a general inquiry in telecommunications regulation and the debate regarding potential USO reform continues.

It is against this very dynamic background that we have made two important decisions over the past few months. Firstly, as we announced in August and as we have done in the past, we will make a material investment to create a step change in our competitive position in our core business. Secondly, we have made some important refinements to our strategy. Our purpose to create a brilliant connected future for everyone and our vision to be a world class technology company that empowers people to connect remain unchanged. However, we have made some modifications to the three pillars. We have also developed a clear articulation of our

brand that is to create better ways to empower everyone to thrive in a connected world and you have seen that brought to life recently through our brand advertising.

So let me turn to the pillars because we have made some small refinements to these pillars. In regards to the first pillar we have refined this to focus on delivering brilliant customer experience. We will, of course, continue to measure customer service through customer advocacy and NPS. However, just getting the service right for customer interactions is no longer sufficient. The customer experience has to be simple, intuitive, increasingly digital and compete with not just other telcos but new service providers.

Vicki Brady will talk about this focus on customer experience in her presentation but it is one of the most profound changes that is impacting all businesses today, not just telecommunication companies as we are seeing the entrance of new digital players.

There is no change to our second strategic pillar to drive growth and value from the core. In fact this is where much of the $3 billion of additional investment will be targeted. In relation to our third pillar we have changed the focus here to make it clear that our investment in building growth for the future will be in businesses that are close to the core. So what does this mean at a practical level? Well, let me take you back to what I was saying earlier about the convergence between technology and telecommunications.

We need to invest in the capabilities that will enable us to be successful in this environment. It means that we need to continue to invest in things such as the Smart Home where we had a big launch last week, where the home network is going to be critical in the future; eCommerce for small and medium sized businesses as we see small business take advantage of network application services as we have been similarly very successful with large businesses; cloud services and other applications and services to sit above the layer of the network will all be coming increasingly important to our customers and both provision of those services and how those services are brought to life over our network is a critical part of our strategy.

It also means that we need to continue to develop and grow our software capabilities through some of the innovations that you've seen us do in the past whether they be start-ups or accelerators as well as through Agile with our partnership with Pivotal and that is because software is playing an increasingly critical part and role in network design, architecture and operation.

In relation to the two areas of investment that we've made in the past which is somewhat further from the core, we remain very committed to our investment in eHealth. Having made a number of acquisitions now we are very much focused on successfully consolidating these businesses.

We are extremely pleased with the Cancer Registry win and we believe electronic health continues to attract very attractive opportunities and the Cancer win in particular is particularly exciting because it's actually taking together a number of the capabilities from the businesses that we've already invested in and brought those together in a single solution for the government.

Secondly, we're obviously disappointed in the changing dynamics in the intelligent video market and the performance of Ooyala which led to the impairment in 2016. Having said that, intelligent video is a critically important capability in a world where we are seeing massive growth in the amount of media that is distributed over an IP network and in fact the volume of growth that we see in media to date is only a fraction of what we anticipate in the future. We will therefore continue to improve our capability in this space to maximise the options through the Ooyala business and the intelligent platform – video platform going forward.

And, finally, from an international perspective whilst we believe we continue to have very significant capabilities to offer in a consumer play in Asia, the reality is we pushed very hard on the best opportunity in the region. Ultimately we were unable to agree a deal in the Philippines on terms where the risk/reward balance was acceptable to us and applying the disciplines that we hold ourselves to in relation to the capital management framework, we decided we could not proceed with the transaction on those terms.

Further, given the announcement of the $3 billion core investment we believe that we do not have the capacity to consider other such opportunities. We will, however, continue to pursue international growth and expansion through our Global Enterprise Services businesses that David Burns will take you through later. Indeed, in 2016 we saw growth in our international business of 55.5 per cent and we are very excited by the opportunity that exists in the future.

We will continue to build out and consolidate our submarine cable network throughout the Asia-Pacific region, with links globally, and take our network application services businesses internationally. In addition to these changes to the three strategic pillars, we've also introduced three strategic enablers. These are investing in the networks of the future, the digitisation of our business and building the culture and capabilities that I mentioned earlier that we will need to be successful in this telecommunication and technology converged world. Indeed, it is in networks and digitisation where we will be directing much of the investment over the next three years, so let me turn to that now.

As announced in August, we will be investing up to $3 billion through an increase in our capex to sales ratio to 18 per cent over the next three years. This additional investment will be into our core business. Firstly, we expect to invest more than $1.5 billion into the networks for the future – Brendon and Michael will take you through that in a moment; secondly, digitisation where we expect to spend approximately $1 billion, which Stephen Elop will cover; and finally, other

improvements in customer experience where we will spend up to $500 million and on which you will hear from Vicki. Our target return for the $3 billion of investment will be to deliver a run rate of benefit in excess of $500 million annually, which we expect to be fully realised by the 2021 financial year. This is in EBITDA terms, of course, with approximately two-thirds of that benefit coming from revenue and approximately one third from cost, and Warwick will talk more about this later.

As previously disclosed, we will be targeting aggregate returns in excess of our current return on invested capital of around 14 per cent and this is consistent with our guideline for organic investments in our capital management framework. For each of these programs, we have a series of key metrics which it seems we will touch on when they take you through the detail later this morning. However, I did want to highlight a few that will be critically important. Firstly, in the network, we need to shift 100 per cent of our new network build to be software defined; secondly, to support digitisation, we need to retire or move to the cloud more than 50 per cent of our IT applications; and, thirdly and ultimately from a customer experience perspective, we must continue to improve strategic and episode NPS by three to six points annually.

I also want to put this investment in the context of the economic challenges and opportunities that we face overall. As we previously mentioned and as Warwick will take you through shortly, the implementation of the NBN has a negative impact of $2 to $3 billion dollars on our EBITDA and, given the current rollout schedule, that impact will fully manifest itself following the completion of the rollout by 31 December 2020. Warwick will talk you through how we mitigate this impact. He will discuss our productivity program, which is targeting cost saving in excess of $800 million, in conjunction with in excess of $200 million of cost savings from the $3 billion of incremental investment. This will deliver more than $1 billion of productivity in total. Warwick will also talk you through the trajectory of our core business, but before handing over to Warwick, I want to take you to one final area.

The next four years will be a period of significant economic change for Telstra. It is against this background and taking into account feedback from investors that we will also be considering key capital allocation decisions and this is something that we're keen to consult with the market on over the next six to 12 months. I mentioned before in particular that the payments that arise in relation to NBN will be important to these decisions. These payments essentially fall into two buckets: the one-off payment that Telstra will receive over the next four to five years during the migration, and the long-term payments that we will receive for access to Telstra's infrastructure.

We've proposed to review how we allocate and structure both sets of payments to determine how we can enhance shareholder value from them. The one-off payments, you will recall, had a post-tax net present value of $4 billion when we disclosed them at the time of the deal. In nominal terms, that equates to approximately $7 to $8 billion dollars after tax. We estimate that the migration costs

associated with moving to the NBN will be approximately 20 per cent of the total receipts. In net terms, therefore, taking into account the payments that we have, of course, already received, the balance of one-off payments due will generate post-tax free cash flow of about $5 billion over the next four to five years.

The long term payments, as I mentioned, of course, relate to access to Telstra's infrastructure and run for many years. Over the next four to five years during the rollout, these payments will increase and are expected to reach almost $1 billion on a pre-tax basis, increasing with inflation thereafter once the rollout is fully completed. There are obviously costs and capital associated with continuing to invest in, build and run this infrastructure and to maintain it. However, given the relatively long and fixed nature of these payments, we will be looking at how best to drive value from them for our shareholders.

Secondly, we will look at our balance sheet settings. In saying this, let me be clear that it is our intention to maintain balance sheet settings consistent with a single A credit rating band, however we will look at the structure of the balance sheet and our borrowings against the background of this period of transition and taking into account what we expect Telstra to look like in a post-NBN world.

Thirdly, we will review our long-term capex requirements. Whilst we will, of course, continue to need to invest capital in our mobiles business, in the fixed infrastructure, including the infrastructure that supports the NBN payments, we will not be required to maintain the last mile of fixed infrastructure that transitions to NBN. We also expect our business mix to change as our services business continues to grow. In the meantime, as we have already communicated, our capex-to-sales will be 18 per cent over the next three years and 14 per cent up until the end of the period or the period of conclusion of the migration to NBN.

Fourthly, we will keep under review our investment criteria and investment opportunities, both inorganic and organic, and from an M&A perspective, we remain committed to the principles of the M&A criteria that we have previously provided to the market but will consider other measures that are appropriate for businesses that do not fit these models, such as in software and services.

Finally, against the background of this, we will continue to review the optimal approach to provide returns to shareholders, taking into account all of the foregoing. This will obviously include dividends, buy-backs, other forms of return and capital management. As I mentioned, we propose to consult with the market on these important decisions, as we have done in the past, and we will do so over the next six to 12 months and provide updates as appropriate.

So let me summarise before handing over to Warwick. There have been significant developments since our results communicated in August. Nonetheless, we are pleased with our performance in the market and in relation to the network. Whilst the competitive dynamic had had an economic impact, we are nonetheless pleased

with the overall trajectory of the business. Technology innovation continues to accelerate, driving volumes onto our networks and also presenting opportunities for growth.

We have today announced some important requirements to our strategy in response to that and this will enable us to continue to execute in the changing environment and we will be investing up to $3 billion of incremental investment in radically improving customer experience, building the network for the future and digitising our core business.

We remain in a strong capital position and active in our capital management with the execution of the $1.25 billion off-market buy-back and also with the on market component yet to come. Finally, we will be considering some important capital allocation decisions over the next six to 12 months, particularly taking into account the one-off and long-term NBN payments that we will be receiving. Many thanks and let me hand over to Warwick.

MR W. BRAY: Thanks, Andy, and good morning. My presentation this morning will outline the main influences on our recurring EBITDA earnings and cash. Over the next five years, our business will incur multi-billion dollar recurring and non-recurring impacts from the NBN as Andy has just outlined. Our commitment is to separate in our disclosures these recurring and non-recurring impacts to enable assessment of the progress of our underlying business. With that aim, I will now talk to you about the four factors that would determine our recurring EBITDA at the end of the NBN network build.

Using the slide that Andy has just shown and starting with our FY15 EBITDA, our FY22 EBITDA will be a function of virtually the NBN, which will have a recurring impact of negative $2 to $3 billion per annum as set out in our May Investor Day. Secondly, productivity. Today, we're providing a target of more than $1 billion net reduction in our underlying core fixed costs by FY 21. Because this productivity target is net, it goes directly to offsetting the NBN impact. More than $800 million of this productivity target will be independent of our strategic investment. The third impact is the return on our up to $3 billion of strategic capex. And there, we are seeking $500 million per annum which equates to a return on invested capital of over 14 per cent which is equivalent to our FY 16 return on invested capital. The return from the up to $3 billion strategic investment will be approximately two-thirds revenue and one-third cost. And so, therefore, the overall net cost reduction will be over $1 billion.

After we consider the – after we consider the total of the productivity target and return on the $3 billion strategic capex, that's $1.3 billion that will offset – or more than $1.3 billion that will offset the $2 to $3 billion recurring impact of the NBN. Our opportunity then to close the remaining gap or exceed it will be determined by the growth in our four major products in our core and new businesses.

What I will be doing now is going through each of those impacts in turn and starting with the NBN impact. The first – this slide is an extract from our May Investor Day. To recap, the components of the NBN impact are firstly, the NBN Definitive Agreements which are positive to our EBITDA and include the Infrastructure Service Agreement and the Government receipts including TUSOPA. As a retail service provider, the net impacts are negative to our EBITDA including new NBN access costs from the CVCs and AVCs, a reduction in existing access costs and the loss of existing whole revenues.

I will now turn to the positive influences on our recurring EBITDA beginning with productivity. As indicated at our May Investor Day and our August results announcement, we are committed to increasing productivity by first, we are holding ourselves to a much higher standard. The productivity that really counts is the productivity that you can see in our accounts. That is, net productivity which delivers benefits to the bottom line. Measuring net productivity means we have to achieve higher gross productivity in order to offset inflation and re-investment.

Secondly, we're particularly seeking productivity that is achieved through customer outcomes. When we get our processes such as installation right first time for our customers, it's better for them and we achieve customer loyalty and the benefits of not having to do the job twice. Similarly, when our products work superbly and intuitively, we do not need to call – field calls into our call centre.

Thirdly, our productivity program is led and implemented by the line divisions and not through a central function. I will now discuss how we measure productivity, our productivity target, our approach to the program and examples of progress that have been made.

We manage our cost in four categories using FY 16 results to illustrate. Firstly, our core sales are directly associated with and vary with the revenue streams of our fixed, mobiles, NAS, Data and IP and Media products. These costs include mobile handsets and network payments, NAS customer premises equipment, services fees to Foxtel for our Foxtel from Telstra offering and NBN CVC/AVC payments. We manage the ratio of these costs with the revenues they directly support. That is, we measure these costs by the efficiency of their gross margin.

Secondly, our core fixed costs are our largest category of cost and are largely independent of scale. We manage these costs against the year on year change in underlying net fixed costs. Whilst mostly fixed, these costs also include some expenses that scale with significant transactions and events, including costs associated with NAS commercial work and corporate items such as the bond rate which fluctuates from year to year. We, therefore, look at the change in fixed costs on an underlying basis. For FY 17, we expect to report a decline in underlying fixed costs with the second half having a greater decline than the first as our productivity outcomes accelerate. For FY 17, the difference between our reported and underlying costs will include: the $300 – $500 million of restructuring costs that will

be included in our reported numbers, but excluded from EBITDA growth on a guidance basis and a growing impact from NAS commercial works.

Thirdly, our new business costs including Telstra Health, Telstra Software Group and Telstra Ventures, we manage these costs against their individual investment cases. Fourthly, we manage the NBN cost to connect against a target unit cost.

I will now take you through our productivity target of more than $1 billion in our net underlying core fixed costs over the next five years. More than $800 million of this target is independent of the strategic investment. This productivity target equates to a more than two per cent annual reduction in our underlying core fixed costs. Achieving this outcome requires we counteract inflation growth and re-investment before delivering the target. Depending on the estimate of inflation, achieving more than $1 billion in net productivity will require over $2 billion in gross productivity. A targeted underlying cost reduction goes directly to offsetting the $2 to $3 billion recurring NBN impact. Additionally, our target underlying cost reduction is to be achieved while supporting customer experience improvements and five times growth in fixed and mobile network traffic over the next five years.

Turning now to our plan to achieve productivity which has four approaches: Firstly, improving end to end customer experience. This will reduce our customer's effort by getting it right first time, on time. Secondly, product and process simplification by providing superbly intuitive products, improving our processes by automating, digitising and removing manual effort, complexity and waste and by reducing the number of platforms and products that we operate. Third, reducing complexity in our organisational structures and fourth, using supplier partnerships to reduce complexity and costs.

Our productivity program will deliver outcomes across our business. We've implemented a coordinated whole of company approach with accountability for delivery and costs management sitting with line managers. Furthermore, the executive leadership team is frequently and directly involved to accelerate decision-making and tackle the hard challenges required to deliver cross company improvements.

Examples of our progress in the productivity program include the following: For improving end to end customer experience, we've simplified broadband activations by making it easier for customers which use self-install kits to automatically connect their modems right first time.

Additionally, we are expanding the capability of our Wi-Fi Maximiser app that enables our customers to simply optimise their in-home Wi-Fi coverage and manage its operation. This means customers will get better coverage in their home. This is reducing costs by around $6 million per annum. We've already achieved an auto-activation rate of close to 90 per cent up from 65 per cent and we expect to achieve over 95 per cent of auto-activations to work right first before the end of FY17, a one

per cent reduction in related truck rolls, 280,000 fewer password-related calls within the first 90 days after activation, and a 50 per cent reduction in unnecessary modem returns per annum.

For product and process implications, we're reducing the times we take to provide quotes to our business and enterprise customers by removing manual effort across our sales processes. This will reduce fixed costs by around $9 million per annum. To date, this initiative has resulted in a 60 per cent reduction in turnaround time for simple orders from in-contract customers, and we're on track to achieve a 30 per cent reduction in time from initial inquiry to completed proposal for complex business and enterprise deals in FY17 and over 60 per cent in FY18.

A fitter and faster organisation, we've confirmed changes to our retail organisational structure to improve the performance and support of our consumer and business frontline staff by removing duplication within our channel management, product management, sales support and central support functions. These costs will reduce fixed costs by over $100 million per annum.

For supplier partnerships, we have changed how we tender construction work for our mobile network by increasing the number of sites we put to tender at one time and providing greater certainty of work for our contractors, enabling them economies of scale within their own workforce and construction processes. This will reduce capital costs by around $12 million in '17 and close to $40 million in '18.

Turning now to the third influence on EBITDA, the benefit from our up to $3 billion of incremental capex. At our Full Year results in August, we announced to the market our intention to invest up to an extra $3 billion on next generation network, leadership and digitisation. This will lead to an approximate 18 per cent capex-to-sales ratio in '17, '18 and '19. This strategic investment will enable us to maintain sustainable network differentiation, support digitisation and boost customer experience, giving us the capabilities to deliver on our financial ambitions.

For the incremental investment, network spend is the largest category and includes new capacity, speed, capability and resilience on our consumer and business, mobile, fixed and core networks. Digitisation spend includes digital customer experience, digital platforms and digital ways of working. And there will be spend on other specific customer service improvements such as process improvements that span customer divisions. The strategic investment also includes some additional $300 million of opex - around $100 million per annum. In FY17 this opex will be included in our $300 to $500 million restructuring charge. We're targeting aggregate run rate benefits in excess of $500 million per annum in EBIDA, two-thirds attributed to revenue and one-third to cost reduction, fully realised by FY21.

Our cost-out benefits of the investment will include, from the network spend, a reduction in the cost to build and run networks, with 20 to 30 per cent improved capital efficiency from new architecture; 10 to 15 per cent cost improvement from

our deployment of software-defined networking and network function virtualisation; operational cost savings from lower power costs; a 25 per cent improvement in the cost to run the network from increased automation and reduced network complexity, including shutdown of sites. This will hold overall network costs flat while delivering five times growth in data.

Cost benefits from digitisation include a reduction in customer service episode costs and reduced IT opex on discontinued platforms and systems. This means more right-first-time, less calls to our call centre, and less rework. And that's why more digital ways of working makes us more efficient.

The revenue benefits of the investment will include, across all segments, continued premium market position and share. In retail, higher ARPUs and customer retention due to enhanced user experience and new products and services. In Global Enterprise and Services, spend will support platforms and applications to create valuable business capabilities and will ensure our customers benefit from leading industry solutions, highly targeted network offers and a transformed business-to-business customer experience, including more self-service.

Financially, the returns on this up to $3 billion strategic investment satisfy two criteria. First, they're consistent with our previously stated organic investment criteria which requires investment to be NPV positive at our WACC plus a risk margin. Second, the target return exceeds our reported FY16 return on invested capital of around 14 per cent. The strategic capex will also result in increased D&A from FY17 due to this spend and also some accelerated depreciation of existing assets.

Turning now to the fourth opportunity to grow EBITDA: our main products. As outlined, assuming successful achievement of productivity and capex benefits totalling $1.3 billion, our opportunity to close or exceed the remaining gap depends on the performance of our main products.

In mobile, our growth will depend on post-paid handheld, the minimum monthly commitment as excess voice and data revenues fall away and the efficiency in our sales costs of mostly handsets. We aim to hold a mobile hardware gross margin at least flat in dollar terms. Across mobile broadband, the opportunity is to return to growth with shared data in consumer and productivity applications in business. The opportunity in our strong machine-to-machine business is about more services to more customers and an increased share in value added services, particularly in logistics, security, retail, mining and agriculture.

Building a profitable NBN reseller business is also important. This will depend on NBN ARPU and market share and the cost to serve and cost to connect unit costs. We continue to see pleasing progress in NBN market share and a decline in the NBN cost to connect. Our NBN reseller business will become increasingly clear in our accounts as it grows in the next three years.

Data and IP and NAS have some complex effects. Domestically, our data and IP business is not growing due to migration from legacy products such as ISDN. We aim to at least offset any declines in data and IP with growth in domestic NAS. In order for this to occur, we need to continue to grow our NAS business and, as previously communicated, achieve EBITDA margins in the mid-teens, up from 6 per cent in FY16. We must also continue growing global connectivity and global NAS. In New Business such as intelligent video health and Telstra Ventures, we're committed to reducing the EBITDA loss in FY17 and we're on a path to profitability.

My comments so far have concentrated on EBITDA. I will now discuss the further factors that influence our cash flow and earnings and beginning with cash flow.

Firstly, our capex-to-sales will be around 18 per cent over the next three years. What's also important is the efficiency of that capex spend. We are undertaking comprehensive programs to improve this efficiency. For example, as I mentioned on a previous slide, by changing the way we tender construction work for our mobile network, we're on track to reducing capex costs by $40 million. As another example, we're also removing duplication from IT development processes by increasing the reuse of code by APIs and microservices. This will reduce capex by $10 million in FY17.

The second influence on cash flow is working capital. The biggest change in working capital are the NBN PSAA payment receipts which are received quarterly in arrears. We also have a program to comprehensively improve the efficiency of working capital. For example, our recently announced Go Mobile Swap and My Business Lease Plan reduce working capital requirements and reduce the cost for customers to upgrade their handsets.

We're also reducing the amount of inventory we keep on hand to cover week-by-week differences in demand from our retail mobile customers. This would deliver around a $25 million reduction in working capital and around 50 per cent reduction in the relevant additional inventory held.

Thirdly, interest costs. The cost of our last three new capital market bond issues have averaged around 4.2 per cent, well below our reported FY16 gross borrowing costs of around 5.6 per cent and, fourthly, tax, where we have been paying the statutory tax rate.

Turning to EPS, this will depend on, firstly, our depreciation and this will increase as a result of strategic capex and reducing asset lives. Secondly, our accounting interest costs which should increasingly follow cash interest costs due to the implementation of Accounting Standard AASB 9 and, thirdly, the number of shares. For example, here, our recent $1.25 billion off-market buy-back delivered good outcomes for all shareholders, reducing shares on issue, increasing earnings per share and reducing total future dividend payments.

Before I summarise, I will briefly turn to guidance. As shown on this slide, I can reconfirm our full year guidance across income, EBITDA, capex and free cash flow.

In summary, over the next five years, our business will incur multi-billion dollar recurring and non-recurring impacts from the NBN. We're committed to separating out these impacts in our reported numbers to enable an assessment of the progress of our underlying business. My remarks today have set out the factors that will influence our recurring EBITDA as we emerge from the NBN build. These factors are, firstly, the negative $2 to $3 billion per annum impact of the NBN; secondly, productivity where today we have announced an increased productivity target of at least $1 billion per annum; thirdly, the target returns from the up to $3 billion investment which we plan to be greater than $500 million per annum and to exceed our FY16 ROIC of approximately 14 per cent; and, fourthly, the growth in our four main product groups. We're also undertaking comprehensive programs to improve the efficiency of our capex and working capital. We're focused on converting EBITDA to free cash flow and earnings efficiently.

Finally, as outlined by Andy, we will consider our capital allocation strategy over the next six to 12 months in consultation with our stakeholders. This will take into account NBN payments, balance sheet structure including settings and debt profile, longer term capex requirements post rollout of the NBN, investment decisions including M&A criteria, and returns to shareholders including dividends, buy-backs and other forms of returns. I will now hand over to Peter to moderate the Q&A.

MR KOPANIDIS: Thanks very much, Warwick. We will make a start. We've got about 20 minutes allocated for this first lot and, to the extent we can't get through it, we will certainly – if you could hold over your questions to the next session. Sameer, first up.

MR S. CHOPRA: Good morning, Sameer Chopra from Bank of America Merrill Lynch. My question is around capital allocation. This is not a new matter. We've known about the $2 to $3 billion type of headwinds and the one-off nature of the cash. What's going to change? Why are we looking at it today?

MR PENN: Thanks, Sameer. No. Look, I don't think there's anything in particular that has changed. I mean, as you say, we've been aware of the NBN for a good number of years but the reality is, up until the end of the financial year, there were only roughly 10 per cent of homes in Australia that had been connected and yet, if we now look forward over the next four years on the basis of NBN's most latest forecast rollout, that will all be transitioned by the end of 2020. And discussions with shareholders – we've had feedback that this is something that's important to shareholders – something that they also have an opinion on. So we're just flagging today that we're going to, basically, over the next six to 12 months, look very closely at our capital allocation decisions and consult with the market on that, so – nothing significant has changed. We just think this is the right time to be doing it against the background of getting to this inflection point with NBN.

MR CHOPRA: When you think about – I think you mentioned band A credit rating and perhaps you can maybe provide a little bit of colour around what requirements go with that and also what role do you think franking credits would play – you will collect a lot of franking credits.

MR PENN: Over the next period of time, yes. Well, I'm not sure. I haven't commented on how franking credits play into the credit rating as such but, basically, we're going to be looking at all of the capital allocation decisions. Importantly, I've spoken about the NBN payments – how we structure those, how we generate the most value out of those to shareholders, and what the appropriate model is for those sorts of business; our balance sheet settings and structure and in communicating that, we thought it was also important to communicate to the market that notwithstanding that, that we will commit to keeping our credit rating within the single A band. And just to be clear, during the period of the review, we will keep it in the current settings. We're not changing any of the settings or our comfort zones during the period of the review.

MR CHOPRA: My question on franking was, historically, the off-market buy-back has favoured domestic retail shareholders and I was wondering is that still the focus, or are you thinking - - -

MR BRAY: I would say that the off-market buy-back has been the optimal – one of the most optimal methods of returning money to shareholders, whether they be domestic or international, because obviously whilst on the one hand, the international investors are not getting the benefit of the franking, on the other hand, they are getting the benefit of the overall reduction in the share count. And also the reduction in the share count and essentially, the discount which arises as a consequence of the franking. And so overall, we believe that that has been the best method for – whilst we've got the franking, the best method is actually giving returns to shareholders overall.

MR BRAY: Just to add, that one important principle about franking credits is the timely nature of their return to shareholders, so that's an important consideration as well.

MR CHOPRA: Great. Thanks for the disclosure, as well, today.

MR KOPANIDIS: Thanks Sameer. Fraser.

MR F. McLEISH: Thanks. A couple from me. Just on the capex guidance. I'm assuming that doesn't include spectrum payments, particularly when you're looking at the 14 per cent further out, and how are you thinking about spectrum for 5G and are we expecting a sort of sizeable auction payment and auction in two or three years' time?

MR PENN: Well, I might get Warwick to comment specifically on spectrum. On the capex point, just to really land it and make sure I've been – we've been as clear as we can be, so what we're really – what we're saying is that we've announced we're going to increase capex to 18 per cent. We think there's a real opportunity to make a big step change in terms of our competitive position over the next three years. Particularly important as we go through this migration to NBN and as we have in the past, we commit to the mid-term capex, the sales ratio of 14 per cent, but we recognise that in a post-NBN world, whilst we continue to have a large amount of infrastructure, and we will continue to invest in infrastructure, we won't have the last mile.

And also, of course, as our service businesses grow, that changes the mix overall, and so we will be reviewing our long term capex post the roll-out of NBN, but in the meantime, 18 per cent in the next three years and 14 per cent until the roll-out point. And no, it doesn't include spectrum and Warwick, you might want to comment on spectrum.

MR BRAY: Look, our starting point on spectrum is a very strong one, so across the 700, 800, 900 bands we've got a very strong position today, as we have in the higher bands like 1800, and that's really important for delivering a great network experience to our customers. Looking forward, we would expect that more spectrum would become available and we will consider that in the context of our needs. It will partly depend on the types of services of that become popular on 5G.

MR McLEISH: Okay. Great. Thanks. And just one other – just on the depreciation amortisation, that was helpful, that guidance, Warwick, there. Just further out, I mean, are we going to have a kind of hump? As you shut down the copper networks and if you've accelerated some depreciation, should that depreciation then actually start to decline towards the end of the NBN roll-out, or do you expect it to kind of stay at those levels?

MR BRAY: Yes. So the first effect is that our capex to sales has gone up to 18 per cent, so that's effect one, and then the second one will be that our asset lives are getting a little bit shorter and the main reason for that is that if you take the proportion – if you take capex and how we're spending it, software type services are becoming a more important part of that and they have a shorter asset life, and so that affects depreciation as well. And then as we indicated, as we're spending this money on digitisation and networks, there may be some of the older products and systems. We might accelerate the depreciation there as well, so they're the three effects.

MR McLEISH: You don't get a big kind of step down in FY20, for example, once the copper network is pretty much shut down.

MR BRAY: Well, you're still going to have the effect of the '18, '19 – sorry. '17, '18, '19 capex coming through there.

MR McLEISH: Okay. Thanks.

MR KOPANIDIS: Andrew.

MR A. LEVY: Thanks. Just one question on the ARPUs. I think you mentioned September ARPUs were sort of in line with June. Could you just give some clarity on the seasonality, just so we can confirm that that's a stable trend year on year, or how we're tracking, and maybe some colour between pre-paid and post-paid, and how that's going. And the other one I wanted to ask was just about the cost-out program. Yes, another billion dollars taken out, so that's a great initiative. How we should think about that, in terms of Telstra's ability to keep it, versus passing it on to the consumers, and then also, which segment – I guess if we've all modelled on your new disclosures, if we modelled our segments out, which segments should we be improving margins for based on a billion dollars cost-out over the next four or five years?

MR BRAY: So on that, beginning on the ARPUs, ARPUs are becoming less seasonal and the reason that ARPUs are becoming less seasonal is that minimum monthly commitment is becoming a much higher proportion of the ARPU and so therefore, the seasonality, it kind of depends on factors now, like when does Easter fall, etcetera, so that's just the first general point. In terms of what we're seeing in ARPU, everything that we talked about at the full year result is playing out sequentially and so Andy mentioned stable post-paid handheld ARPU sequentially and so the type of factors that we talked about there is a bit of a stabilisation in the excess data revenues in consumer. And continued improvement in minimum monthly commitment, which is very pleasing, and then the tactical discounting is somewhat offsetting that improvement in minimum monthly commitments, so those factors we talked about - - -

MR PENN: And Warwick, can I jump in before you got to productivity, if that's okay, and I think, Andrew – I mean, the point of the message that I wanted to leave this morning is that it has been a pretty dynamic period. The competitive intensity, there's no doubt that has increased and of course, that has an effect on margins and has an effect on revenues. We're actually performing really well, really strongly, in the context of that and our SIO performance on mobiles is definitely in line with what we have seen in previous periods. Our performance in iPhone is definitely in line with what we've seen in previous periods.

We're clearly – if you look at the published stats on NBN, we're clearly gaining share there, so that was the main message and we will talk a little bit more about the retail business, obviously, when Kevin does his presentation, but the net is – overall, it's a pretty solid performance in results.

MR BRAY: Yes. And so in terms – actually, your further question on pre-paid. So pre-paid, we're pleased with our performance on that, but pre-paid remains sort of the epicentre of the hardest of competition. Just turning to cost-out, so question one

is where will it come from, and it's actually pretty strong across the business, as I indicated. It's line led and so that across our business is probably the best I can do there. In terms of - - -

MR LEVY: And just on that then you've previously given sort of your expectations of what you think mobile margins sit. Like these kind of numbers - your NAS expectations didn't change on the slide pack, so just trying to think about where we should be attributing it.

MR BRAY: Yes. So going through each of those products, look, the important areas where costs will show through is – and remember that we're talking – that this is a four year program, so we're not going to give four year guidance on product margins, but as an example, what is important will be that that cost-out program will be critical for us to get the right margins on re-selling the NBN, which is a very tight margin business, as an example. We're not suggesting, at this stage, that the mobile margins will go above any numbers that we've talked about previously.

MR PENN: And I think the other point, Warwick, is a lot of the fixed cost component where there's a lot of focus is shared across the businesses, so you get a sort of scaling benefit and if not – in the core of the network, the core is obviously shared across fixed and mobile.

MR KOPANIDIS: The next question is from Kane from Goldman Sachs.

MR K. HANNAN: Morning guys, it's Kane here from Goldman Sachs. Just two for me. Just on the $500 million in benefits from the investments. Is there any colour in how that breaks down across the different – the network investments and the digitisation? I mean - - -

MR PENN: Well, we – maybe hold the question. Sorry- but we will be going through those programs in a moment. We have not broken down the $500 million to say that this much comes from digitisation and this much comes from network, this much comes from customer experience because frankly, those things all overlap. But what you will see through the presentations for each of those programs is the underlying – what I would call the underlying input metrics of where we're going get from A to B, so you will be able to have colour as we move forward with the program on the progression of each of those – each area of the investment on the one hand and then also be able to see the progression towards delivery of the benefit by 2021 at the aggregate program level.

MR HANNAN: And just on the NBN shares, they're like, very strong numbers, but how reflective do you think that is of the true NBN share, just given differing incentives to migrate existing customers across? I mean, are those the sort of share numbers you're seeing in the places that are completely migrated to the NBN?

MR PENN: Well, they are –they are the NBN shares and I'm pretty happy with them from that point of view. I mean, I'm not sure I completely understand - - -

MR HANNAN: So it's like when your 18 month window to migrate, as the NBN accelerates, you guys, obviously, with the payments you're receiving, have a very strong incentive to migrate your customers, while the other guys might be holding back.

MR PENN: No. I wouldn't say that. I mean, I understand the dynamic, but I wouldn't say that's the dynamic. I think probably the more important dynamic would be the split between regional and metro and our incumbent market share is a bit higher relatively in regional, a bit lower in metro, but actually, at the moment, our share performance is at least reflecting that which we've got, both metro and regional.

MR HANNAN: Thanks.

MR KOPANIDIS: Ian.

MR I. MARTIN: Ian Martin, New Street Research. Thanks for sharing your thoughts with us today. Much appreciated. Just the $2 to $3 billion range, the annual impact on EBITDA from NBN migration. We're now 15 per cent into that migration. A couple of the key variables must be starting to shape up, particularly the margin between the retail pricing – I mean, there's still obviously – there will be a lot of changes in retail pricing and margin as the rest of the rollout continues, but we're starting to get some indications there. And, of course, market share is another key variable. But $2 to $3 billion is quite a wide range against, say, a 10 billion EBITDA. There's a 10 per cent range there. So I just wonder, if you maintain a 55 per cent market share, for instance – 54 per cent, whatever it is – whereabouts on that $2 to $3 billion dollar range would you be?

MR PENN: Warwick – I will let Warwick answer.

MR BRAY: Yes. I mean, as you point out, we're only 17 per cent of the way through, so look, what it's going to depend on is our share, as you pointed out, and it's encouraging to date but we're 17 per cent of the way through, and the mix of regional versus metro will change as the NBN rolls out. It also depends on – we haven't really got into the new technology mix, and that may have some effect as well. And then there's – we're pleased with the progress on our unit costs, and the better our unit costs on NBN are as a reseller, the more that we would be at the lower end of that range.

MR PENN: But look, I mean – and I would add Ian that to Warwick's point, it is relatively early days, and I think the big other factor will be the competitive dynamics as well. And I think at the moment I would be being conservative towards the upper

end of the $2 to $3 billion, but I do think the competitive dynamics will play quite an important role in that.

MR BRAY: And I should have mentioned as well, the – look, the other area is the migration of our data and IP products, some of which are on copper as well, and so – but what's sort of yet to play out is the opportunity to move – for them to go onto fibre versus going onto other forms.

MR MARTIN: All right. Can I just ask as well, though, Warwick, in relation to your – I think you had a slide there showing the incremental EBITDA changes from productivity versus return on investment versus new growth products and so on. What struck me with that, particularly when you're talking around the returns on the incremental – the additional capex, is that there's potential for some double counting across those three categories, particularly a lot of the gains from the incremental capital spend produced – a third of them come from cost-out, and some of that digital ways of working and so on, isn't there an overlap between the gains you might expect there and productivity gains and, again, the new revenue, to a large extent, might depend on that additional capex.

MR BRAY: Yes, so to break that down, so the productivity without the strategic capex spend is more than $800 million.

MR MARTIN: All right.

MR BRAY: Then the strategic capex spend is $500 million of benefits, of which two-thirds are revenue and one-third are costs. So if you add the costs from those two buckets, that's where you get to the more than $1 billion target.

MR MARTIN: All right.

MR BRAY: Then I absolutely agree with your point about the – then the third bucket which is about growth from our products, and that was meant to be additional growth in excess of the first two buckets.

MR MARTIN: Very good. Thanks for that.

MR KOPANIDIS: I might just take a question from the public line. We've got Eric from UBS.

MR E. CHOI: Thanks for the questions. I just had two. The first one was just on capital allocation strategy. You obviously said you look at the best way to drive value from those NBN payments. So I'm just wondering, is it too farfetched to assume this could take some – potentially a form of buy-backs for those one-off payments, and perhaps a more exotic way of crystallising value from those infrastructure payments? Could you look at, like, securitising those government payments, for example? So that's question 1. Question 2: I'm just wondering if you

can give an update on mobile margins. So, obviously, iPhone a big recontracting event. I'm just wondering how much of that drag from an increase in tax will be offset by other things such as MTAS, MROs and these new leasing plans that you've flagged. So I guess putting that all together, are we expecting mobile margins in the low 40s in FY17?

MR PENN: Thank you. Look, I might take the first one in terms of the capital program, and then Warwick will maybe make some comments in relation to mobile modes. I mean, I don't want to sort of predict where we're going to land in relation to those decisions in that review, because we haven't made those decisions and we do want to consult with the market on them. The bottom line is, I think, we will take into account those payments. We will also take into account, the fact that we're going through this transition from fully migrating off of NBN and that's going to change the asset base on the balance sheet. It's going to change the long term capex requirements as I've mentioned. It's probably going to change the – we expect our services business to grow over that period of time and so we need to be thinking forward to what sort of business Telstra is in 2020 and beyond.

I don't want to suggest that we're not going to be in infrastructure. We still have very large infrastructure businesses both supporting the core network as well as the NBN as well our peer-to-peer infrastructure and submarine cable network as well but when we take all of those factors into account what we need to do is then look at what's the right way and what's the optimal way of generating returns to shareholders taking into account everything that you've said. I mean dividends, buy-backs, other forms of capital management initiatives both in how we return it and then also how we structure that as well, but we will absolutely consult with the market over the next 6 to 12 months and we do think that there are interesting opportunities to enhance value for shareholders through that process.

MR BRAY: On mobile margins, we don't have anything specific to add. Look, the effects – I will just talk about some of the effects. So MTAS is an effect that brought our mobile margins up effectively cosmetically; it had no economic effect. Then you should expect over the years that the services on top of our mobile which we account for in our mobile business will be a bigger proportion and so, for instance, StayConnected and also some of the great productivity services in our business services. Now, all of those products are profitable in their own right but their percentage margin is smaller than the mobile margin so as services grow, as a function that will put downward pressure on the mobile margin. And then on the positive side of things there's the productivity that I've talked about and then there's also – potentially some operational leverage as well but they're sort of the factors.

MR KOPANIDIS: We might go to the media now.

MS A. SMITH: Hi. My name is Alisha. I'm from Channel 10 News. I have just a question to Andrew. Are you concerned about customer privacy when offshore call centres are selling customers' details?

MR PENN: Look, I think, Alisha, customer privacy is critically – critically, critically important and I know the issue that you're referring to and can I be clear – we have no involvement and no engagement with the organisation that has been purported to be selling customer information. We have very strong controls around privacy in all of our call centres. It's something we take very seriously and I'm only sorry that in that situation I think you're referring to, that customers of other organisations have been affected but, look, it's something we take very seriously and we will continue to do so.

MS SMITH: Have you ever had any security breaches of a similar nature?

MR PENN: Not that I'm aware of, no. Not that I'm aware of. I mean, obviously with a very large number of customers it's something we take very seriously and I'm not aware of any situations where there has been any inference of that impacting us.

MS SMITH: And what steps have you taken to ensure that it hasn't occurred?

MR PENN: Well, we have very clear service standards with both our external providers and then we have obviously very clear processes internally. We conduct regular audits and there's very clear guidelines for dealing with customer – customer information.

MS SMITH: Thank you.

MR PENN: Thank you.

MR KOPANIDIS: We're just on time. Look, there's a couple of questions from the media. Look, can we have the question from Lilly, please, from AAP on the ConferLink line.

MS L. VITOROVICH: Hi. Hi, gentlemen. I'm afraid I have a very similar question on security. There's a story today in Fairfax. Is there anything more that you can add in terms of what customers should be doing because it was raised at the AGM that they get some dodgy calls.

MR PENN: Well, I think – sorry, I didn't catch the lady's first - - -

MR KOPANIDIS: Lilly.

MR PENN: Lilly. Yes, thanks, Lilly. Look, yes, we did say at the AGM, I think, of course, in an increasingly digitised world where more and more customers are online they've got to be very, very cautious and very aware of scamming emails, phishing emails, any types of approaches which look suspicious and look – purport to be friendly or purport to be seeking customers to give over information or respond to emails or open attachments to emails. All of those sort of things are becoming increasingly important that customers become very cautious and aware of them –

because, unfortunately, it is the case that there is a lot of activity out there which seeks to try and fraud customers through that type of conduct.

MR KOPANIDIS: Next question on the ConferLink line, please. John, you can .....

MR J. DURIE: Hi Andy; John Durie. Can I just clarify – you talked about NBN payments today and there will be a net price and then payments of five billion a year. I mean, what is the net position for Telstra.....

MR PENN: Yes. So thanks, John. So basically there's the two types of payments. There's some payments that we receive for the one-off in nature and we receive those over – we've received some of them already but by – sorry, the majority are over the next four years of the roll-out. And as I said in my note in post-tax terms that's equivalent to about $7 to $8 billion so – and it's taxed at 30 per cent so you can do the maths on roughly what that is. So that's the one-off payment.

Now, in addition to that we receive ongoing payments from the NBN and that runs into – for contracts that run for a good number of years to come because whilst NBN is taking over the last mile of infrastructure as part of the arrangements of providing that as a wholesale service actually – well, quite a lot of the infrastructure that they need also remains with Telstra – we continue to own. So that's all of the fibre loops, the exchanges, pits and ducts and access to all of that infrastructure which NBN fundamentally needs to be able to be a wholesale provider of broadband services, they pay an annual payment for – through a series of contracts where we have an obligation to make it available, give them access to it, continue to upgrade it, continue to invest in it.

Those contracts, once the roll-out is completed will, if you like, hit their run rate and, as I said, that will increase to just under a billion dollars in pre-tax terms and then they increase roughly with inflation thereafter.

MR DURIE: So what's your net position for the next couple of years?

MR PENN: Well, and then, of course, we lose $2 to $3 billion of EBIDTA so net net, after all of that Telstra is economically worse off once the NBN is fully rolled-out. And, as you will have seen from our – one of our challenges that you're staring into is how do we – how do we improve aspects of our business through productivity, through continued growth of our business through the sorts of strategic investments that we're making to mitigate as much of that as we can.

MR DURIE: So is there a figure about how much you would be worse off?

MR PENN: No. We haven't quoted a figure. We've quoted a figure of how much the – the EBIDTA impact is which is $2 to $3 billion on an ongoing basis and we're getting one-off payments which I mentioned on a post-tax basis around about $7

billion but then we've obviously got to migrate people so that's net about $5 billion. So you've got $5 billion of one-off against $2 to $3 billion of ongoing.

MR DURIE: Thank you.

MR KOPANIDIS: Okay. That closes the session so we will have a very quick changeover and I will introduce Brendon or welcome Brendon and Mike to the stage and thank you.

SESSION 1 CONCLUDED

SESSION 2

MR B. RILEY: I am very, very pleased to talk to you this morning as we look to the networks of the future and our investments and I want to firstly start out and talk about what I see as the three major drivers that we're dealing with when we think about the networks.

The first is demand and Andy has mentioned this before. We're looking at 5X traffic growth in the next five years in terms of data on our networks. And when you look at the capacity that's going to be required by 2020 on our networks, we need to build 80 per cent of that between now and 2020. So that's a pretty important capacity imperative for us to get started on.

The second driver is around experience and we can see today that video is increasingly the predominant medium on our networks and by 2021 video will drive 70 per cent of volumes across our networks. So it's very important we have an architecture that can drive and handle and optimise video. We know in terms of what we do every day with our wonderful devices that we can do more and more on them, particularly even important activities such as banking. And already today, 38 per cent of retail banking transactions happen on a mobile device. We think that's going to continue to grow as is so many other mobile use cases.

And then we look at the Internet of Things, we see that there's going to be a 3.8 fold increase in devices that are connected to different Internet of Things platforms. And I think we're seeing that already starting to build out in mining, importantly for agriculture, in the rural parts of Australia and also in the environment, particularly when we look at oceans and waterways. So demand and experiences are two critical drivers.

The third is the underlying economics of how we build and create the demand, the capacity, the service – the demand – and the new architectures. And what we're going to be committing to do is to increase our traffic growth five-fold while holding our underlying cost flat in networks. And we're going to do that with new architectures and we're going to leverage the partnerships and all of the experience that we have. But it's also going to require some necessary simplification

requirements. And on 1 December, in a few days' time, we will be shutting down the 2G network which we've been talking about for some time. You can expect after 2020 that we would need to retire the 3G network and many of the vertical platforms that we've created over a long period of time as the world of networks becomes more software defined.

So we've identified four key investment areas which we will look to leverage from the incremental investment and I would like to talk about these four now. The first is network 2020. This is a very, very substantial program and transformational program for Telstra and, essentially, we will start to collapse all the vertical network elements into a horizontal network cloud layer. This will be software-defined. It will enable us to provision network functionality via software. Importantly, this will be programmable. It would be abstracted. So as our customers want to do more and more with mobile solutions, they're going want to build a set of unique capabilities that interface into our mobile networks.

We want to be partnering with our customers as they do that and importantly, the network has to be media optimised. As 4G is more optimised for data, 5G is going to be far more optimised for video. So network 2020 is a substantial and significant transformation of the underlying Telstra network infrastructure environment. We want to continue to enhance our mobile differentiation. We've got strong spectrum holdings. We have a very, very significant blueprint of technology across the country and we continue – we will continue to increase our 4G speeds and coverage and particularly increase the indoor coverage of our 4G network. Mike is going to talk about some very exciting new features that are going to be coming to all of you soon to help continue to integrate and converge the networks that exist in our lives and we need to prepare and be architecture ready for 5G and that's not only to standards, but also the partnerships that apply across the eco-system of the mobile world.

When you have five times the traffic, two times the video and four times the connected devices by 2020, we're going to need to evolve to an environment that has much greater resiliency because we're becoming more dependent and less intolerant of any issues and outages. I'm very, very pleased with the money we've already invested in improving the resiliency from the outages earlier this year and that's definitely, significantly changed the recovery time on our mobile network if there was to be an outage. We need to continue to invest in the architectural simplicity of a horizontal network compute layer and then start to build new tools and analytics and Vicki Brady will talk about some of those tools where we have much more real time insight into the experiences our customers are or are not getting on our networks.

Finally, we've got to support the transition to NBN and when we look at the original timetable for NBN to where we are now, it's clear that the ADSL network needs to perform strongly for a little bit longer. So we're going to take some steps to make sure that our customers are getting really good quality experiences on our ADSL

network – investing in more capacity and more ports to do that. That investment that we drive into the older part of our network, I'm pleased to say, 95 per cent of that will be re-usable as we finally transition off copper and we can leverage that into our network 2020 environment and architecture. So some very big, bold and strategic investments for us – very exciting – and I'm going to ask Mike to bring it to life even more. So thanks, Mike.

MR M. WRIGHT: Thank you, Brendon. Let me tell you a little bit about the thinking of network 2020 and as Brendon mentioned, this isn't about just an evolution of the network. This is about a revolution or a transformation. And there are times as technology evolves that we look at the opportunity and make decisions about whether we're going to grasp the future or not and we've done that in the past. We did it with Next G, we did it when 4G came and we try to do it as new technologies emerge on the roadmap. And this is a time to think about and take advantage of some of those transitional opportunities and do something a bit more bold in transforming a network rather than just evolve it.

And it's informed by two key factors. One factor has been mentioned a lot today and that is the expected growth – the five times traffic. But with that expected growth comes a whole range of very different use cases. As we see the explosion in video augmented and virtual reality and also as we see our own customers trying to go digital and stitch together complex cloud environments, we can transform our network to make it more valuable to them and make their actual business a lot easier and simpler and that's the opportunity. And added to that, there are a series of technology waves coming.

Now, we, once again, can sit and watch those waves go past or we can start paddling now and get on to them and ride that wave into the future. And those waves are things like the emergence of 5G, the emergence of new technologies which I will explain like software-defined networking and what's fundamentally happening with compute and cloud. Put those two together and what we can do is take the money we will naturally invest in that five times growth and catalyse with this additional investment to transform our network into something that's very new and that's behind thinking on the strategy.

So let me talk about some of the design principles because we need to layer future architecture that we're going to build to. Firstly, the approach will be to make all connections mobile. Essentially, what that means is today and historically, we've treated the networks as separate verticals. If you move home, we deconstruct your home connection to the gateway and your billing and you go and reconstruct it elsewhere. By making all connections mobile, essentially, everything that we deploy in the network right down to moving home doesn't need any work applied to it. You move your gateway, everything goes with it. Treating everything mobile simplifies our networks, simplifies our system, and the differences are really just in the way we construct the plans.

Allowing quality on demand means different use cases get matched to where you and what the use case is. Increasingly, we're seeing the home as an extension of the network. Traditionally, we are the Telcos who have seen our jobs stopping at the gateway. There's an opportunity now because people are doing connected home, increasing consuming video. We need to understand and control and help customers on what's going on inside the home through the gateway. That means better instrumentation, better control of what's going on in the home and more architecting on behalf of our customers and that applies to many of our products. We used to control everything from the voice to the handset. Increasing the experience goes beyond the device, but it's influenced by what goes over the top of the device and our role is try and optimise that for our customers.

By converging these products and making them borderless, we don't have these vertical stacks as separate anymore. And, of course, everything we do in this architecture is informed by the explosive changes that come with 5G and the Internet of Things. We will able to, because the network is programmable, customise more products and then add value for our own customers and that is part of the revenue opportunity that comes with it. But one of the fundamental changes in this new architecture is the concept of network slicing. All of our networks today and the products that run over them are static, in that, the architecture is fixed and no matter what your needs are for bandwidth or latency or use case is, you go through the same routers, the same gateways and the same elements in the network.

The concepts of this new network architecture based on slicing means we can optimise the network architecture for the use case, so if you need low latency we can put the network elements in software in different parts of the network. And if you need to be at the core of the network near a data centre, you can exit near that data centre. So this means, we can not only create a network that's flexible to the use cases, but also a network that's more robust because an incident on one part of the network or one use case that becomes problematic doesn't flow over and impact the rest of the network.

And, indeed, if it's true that robots are coming from the future to kill us, we can turn off the data layer and stop them and at least ring each other and tell you your vacuum cleaner is going to try to kill you. So the layering of that network gives a level of protection at many different levels. And, of course, it means faster time to market. It means we can develop products much more quickly built on this new technology architecture. So let me expand a little about how this happens and what these key technologies are.

Now, the fundamental thing that's going to change is the way the network is built from bottom to top. You think about the architecture of the networks as we know them today, we layer fibre in the ground, we fired some light down on it, we put some routers on top of that and then we put some network elements on top of that that are associated with the product we're building. They might be mobile gateways

and we create a product construct, then we might create an IP telephony construct and they are not borderless. They are quite separate. The only way you can get from one is down one and up the other stack. That is somewhat rigid. It has served us incredibly, but it's not suited to the network of the future.

So as we see these emerging technologies, the biggest and single most transformational technology that coming in is a thing called software-defined networking. The ability to program and control down to the lowest layer of the network using SDN protocols means we can now reconfigure the network dynamically, means we're building products, we're no longer typing commands in. But under control and orchestration we can rapidly reconfigure the network, both in product activation but also in times of duress when the network has to reroute itself. So SDN and a separate feature and function called network function virtualization, takes the software that traditionally ran in separate boxes and allows us to make a compute layer, a network cloud if you like, across our network, that we can spin up those functions quickly.

So the old days of planning six months ahead, getting a truck roll, increasing the power, booking an outage, turn into software changes in the network, and they make the network far more rapidly changing. And all of this is built on changing the layers from the optical and routing layers up. So the investments we're making allows us to start now, so that when SDN/NFVs mature that layer is ready to turn on. And, of course, that means we can bring these very different capabilities to market quicker. Already our IP network transformation in turning on VoLTE has allowed us to rapidly evolve to ViLTE and Voice over Wi-Fi is now active in our network.

So we have an IP layer that's rapidly allowing evolution of our network. Similarly, our Symphony architecture is an early insertion of SDN, and our LANES product is a classic example of taking an existing product and broadening its use case for other applications, so fundamentally shifting our network architecture. So some of the benefits of these changes are, of course, the ability to support these different use cases. The example I gave was the case of the network slicing. Really, ways of prioritising network attributes, doing software changes, exposing them both to our internal digital systems and also to our customers to make those valuable.

Also, the ability to really provide integrated products and services. But one of the most important ones of those is to the ability to instrument our network. So the network being software means internally it's instrumented. We can measure it, instruments in gateways, instruments in applications, and gathering and processing that data, means the network can dynamically reconfigure itself or detect customer problems proactively, right down to the ability of, say, a new home gateway with a 4G modem in it to know that your fixed line is down and you don't have to ring us; we know about it. If we take those opportunities and turn those into the benefits in terms of cost, a more dynamic and programmable network allows us to use the assets more efficiently.

If you think about the way we architect our network today, we have multiple routes of fibres in place sitting in case one of them gets cut. A dynamic network and an ability to reroute means we can use those assets far more effectively. That gives us a capital efficiency. We're also able to do a range of other productivity improvements, like reduce the cost of our network. So we expect to turn off half of our exchanges. We took a clean sheet of paper look at our network, and we need about a half of our nodes, which means savings in costs, electricity, rent and maintenance. And, of course, a dynamic and programmable network means less time people operating it and reconfiguring it, which takes operational costs out of our network.

So how are we going to get there? Well, firstly, it's around simplification, and Brendon has already mentioned one of those – turning off 2G. The thing we need to do is shut down a range of the old products that are dragging on our ability to be flexible, and that means a number of years ahead of us of deconstructing the PSTN and the products that go on it that have been with us for many, many years. And that requires expertise as we, in a sequential order, build new products that we go to and migrate and transform that network, ending beyond 2020 as 5G emerges. And as Brendon has already mentioned, as we're going beyond 2020 there is a time when we will need to shut our 3G network and save some of those costs and, in fact, reuse some of those network assets.

The SDN/NFV evolution starts now with some of our early insertions, but that technology is still maturing. So we're taking the insight that is going to mature in the next couple of years, rebuilding the underlying layers of the network with its investment so it's ready to plug that technology on. So in the next couple of years as that matures we will scale up SDN/NFV through our network, and by the 2020 timeframe we will be top-to-bottom programmable. And, finally, a lot of our products and services need to run using the same IT systems billing construct, things like our billing and rating engines built on our matrix system are increasingly doing all of our rating jobs. We will evolve that through to 2020 till we end on borderless products.

Now, let me just turn to talk a little bit about some of the other investments we're making. We are continuing to commit to differentiating with our wireless network, not by a little but by a lot. And the whole idea here is we know that 4G delivers capability. The connectivity of 4G is fundamental. 3G is not going to be the foundation of these new services and products. So driving out our 4G layer, so you're always on the 4G in most of the places you go to, using 700 megahertz spectrum, taking use of small cells in regional areas and the low cost opportunity to get to parts of the network we couldn't economically do before with small cells.

Faster networks using more spectrums, 4 by 4 MIMO new technologies over a greater area which will maintain that quality and performance and, of course, getting it ready for the exploding new opportunity of the Internet of Things and narrowband IoT. That's foundational. That means where you are and the experience you get continues to be the differentiator. And then on top of that, we can faithfully build all of these IP-enabled products, like voice over LTE, voice over Wi-Fi and products like

LTE broadcasts. So we're committed to, and we will continue to drive, that mobile differentiation and stay way ahead of the curve. That's a fundamental, and that's aligned very well with the new architecture as we go to 5G.

The last section that Brendon talked about was the transition to NBN and the fact that many of our customers are still on ADSL. And we, of course, are restricted by laws of physics of delivering some of those customers the types of speed they would like for streaming video on demand. So essentially we're limited by the laws of physics of the copper length. But what we do know is about 85 per cent of those customers are close enough that we can invest in the network core and the backhaul to give them a good streaming experience. So we're committed to investing in the ADSL network there. And we're separately, specifically targeting the last 15 per cent to look for go-to products, services and informing our front of house so we can make sure they get the best experience while we transition to NBN for that ADSL network.

And as Brendon mentioned, because we're doing this early change in the technology architecture and the connectivity layers, the extra ports and routes that we build for capacity are totally reusable for NBN. 95 per cent of those are reusable. In fact, most of the costs will be just simply the reconfiguration of the network. And, finally, as Brendon mentioned, a network like this, and the demands on a network like this, shift fundamentally. If you've got products that stitch in and out of three or four clouds and rely on a text message to get through to work for your identity, you need all of those services. Not one of them can afford to be down. And a network that's very heavily instrumented and self-healing delivers the requirements that we see that our customers need well into the future. So with that, Brendon, I will hand back to you, just to close out with what we're going to deliver.

MR RILEY: Great. Thanks very much, Mike. So, look, we're looking forward to coming back and reporting on our progress with you all and these are some commitments that we're making. There will be many more that we will come and talk about in the months and years to come but these are some big ones. So, firstly, by 2020, 100 per cent of all of our new network build will be based on SDN/NFV architecture. We're going to continue to expand our 4G coverage and leverage our spectrum to double the speeds of standard 4G to 87 per cent of the population by the end of fiscal year '19, and we're going to leverage the new architectures that we're creating to deliver speeds of one gig in CBD locations and selected high-traffic areas, again by the end of fiscal year '19. That's not too far away. That's going to be very exciting.

Mike has already mentioned the actions we're taking around NBN transition and, importantly for all of you as investors, we're going to scale our data growth but do that while holding our costs flat through the leverage of the new technology and architecture. Big. Bold. Exciting. All designed to keep us as leaders in Australia and around the world on networks. Doing all of this, of course, goes hand in hand with the digitisation of Telstra and to talk about that, let us welcome Stephen Elop.

MR S. ELOP: Good morning. It is the case that digitisation is a critical enabler for the transformation today of companies all around the world. It's very much the case and, when you look at why companies are making such strategic investments in digitisation, it tends to come down to three factors.

The first is because our customers and everybody's customers are increasingly demanding an improved digital experience. Every day, we see new applications and services and ways of working with our phones and devices that is constantly being raised in terms of expectations, so all companies are facing this customer call and are pursuing that.

The second critical reason that companies are pursuing digitisation is the obvious benefits internally in terms of what's going on just behind the curtain. How well is data moving? How effective are processes? How can we take costs out of the organisation in order to support that great customer experience?

But the third reason I actually think is the most important. One of the critical reasons that companies are pursuing digitisation with such energy is because they want to get their hands on the information, the data, the analytics, the insight that's available if they have complete command and control of everything that's going on about their customers, their products, their services, the market and everything else.

We're seeing an environment where artificial intelligence, machine learning, the advent of bots – all of this technology are having a fundamental impact on our ability to serve customers. So it's not surprising as you look at our plan on the screen behind me that digitisation is one of our critical strategic enablers. Now, we have, for a number of years, been on the digitisation journey. You see this on our website in terms of being able to interact with Telstra to get service – taking care – you see it in our 24x7 app. So you see a number of those traditional digitisation steps already taking place, but as Brendon and Mike just described, there's a fundamental new opportunity right now with the shift in network architectures to take digitisation to a whole new level that is advantageous to our customers and advantageous to Telstra.

When we talk about digitisation, we think about it in three major domains. The first – and this is what you kind of expect – is as it relates to the digital experiences. What do our customers experience day to day as they interact with Telstra; as they go through an order to activation process; as they seek service; as they seek to reconfigure their enterprise network or whatever the case may be? So it is the customer episodes and redefining how those are delivered end to end seamlessly and digitally that we pursue with new digital experiences. Now, it's equally important for our customers to be able to do this in a digital way as it is for our employees to enjoy the same experiences so we can better serve our customers. So that's the first tier: the digital experiences.

The second tier is the underlying architecture or architectures that need to be in place in order to facilitate this in a rapidly changing technology environment. Now, when someone says "digitisation", of course, you immediately think about the IT architecture and, of course, that is the heart of this. This is about shifting from an environment of multiple older monolithic systems where data moves from one system to the next, to a person, then into another system – all of that – to an environment that is heavily cloud-based, where we are servicing capability to everyone in the corporation through microservices and new technologies. It's certainly all of those things. It's about making sure we have a single view of the customer so that we know at any point in time how to best serve that customer, what offer to make, how to take care of them, how to anticipate his or her requirements, but there are other elements of architecture that we need to think about, for example, the product architecture.

In the past, products at telecommunications companies tended to be one-off items that were wired up and down from the network all the way to the customer. In the future, it will be a combination of building blocks that product managers can assemble in different and interesting ways in order to rapidly respond to changing customer requirements, so we have to think about the product architectures of the future, but as you heard from Mike, we also have to think about the underlying network architecture. The very fact that it becomes software-defined changes the digitisation game fundamentally. You can imagine an enterprise customer having specific requirements that change even minute to minute and having those change requirements reflected all the way through our network so that ultimately their customers get the best possible experience.

Now, the third domain of a digitisation initiative is very much about the ways of working; the way we build systems; the way we serve customers. This is something that, around the world, is going through a fundamental transformation. For example, in the development of IT systems, the days of waterfall development where a major system implementation would take months or years or many years or never land at all are quickly being replaced by agile methods of development where a larger number of smaller terms are rapidly iterating through new functionality or changes or bug fixes, or whatever the case may be, so that products in the past that might have been on an 18-month delivery cycle are now being continuously released and updated and changed on an ongoing basis.

For companies like Telstra, it represents a major challenge to shift from the older ways of doing this into the new world as literally thousands of people within Telstra and beyond Telstra who support us have to go through this transformation. So these are the three major domains of digitisation. What I thought I would do, however, is highlight how digitisation supports each of the three strategic pillars that Andy described earlier, so, first of all, as it relates to our desire to deliver even more brilliant customer experiences.

It is the case that the digitisation initiative is closely tied to delivering great customer experiences. Every customer is increasingly expecting their requirements to be digitally delivered. One of the challenges we have faced in Telstra and many companies around the world face is that, even though you may have that beautiful digital frontend on a website or in an application, just behind the curtain, old systems – manual handoffs – all sorts of things are happening in order to ultimately deliver the service.

The challenge with that, of course, is with every handoff – with every system in the way – is increased opportunity for error or for services not to be effectively delivered. So, pre-digitisation, we're focused on eliminating as many handoffs as we possibly can, consolidating systems and increasing the rate at which things happen straight through, from the minute a customer requests something all the way through to its delivery, minimising the number of touchpoints and handoffs that take place.

The second strategic pillar relates to driving value and growth from the core. Telstra is blessed with the strength that we have in the Australian market – the number of people and companies in Australia that depend on Telstra. That is an opportunity for us to the extent that we can extend our business relationship with all of those customers – extend our share of wallet – go further with those customers. That is a powerful opportunity that Kevin will be talking about in quite a bit more detail. Because of the opportunity to have a single view of the customer, to truly understand how we're interacting with any customer at any point of time, the opportunity to actually support the upsell and cross-sell opportunities, to properly position products, to have those products respond to customer needs is like never before.

So the digitisation effort will play a major role in supporting how we develop further revenues and capabilities from our existing customers as well as pursuing new customers and then, in terms of supporting our third pillar, which is growth in adjacencies and in new business opportunities, it's important to recognise that the digitisation environment at Telstra represents something fundamental, not only for Telstra and its customers, but also for the community in which we operate, whether that is young start-ups that we sponsor through our muru-D program, whether that is Telstra venture supported organisations, the opportunity is actually to implement new products, new services and new businesses that themselves take advantage of the platforms that Telstra is putting in place and will make available through interfaces to those companies.

And I already used the example of enterprise organisations who themselves are going through digitisation, have built systems and services for their customers that are completely interconnected with ours, so again, their customers have that same seamless brilliant experience. Now, through the years of digitisation work that Telstra has already done and with the studies and work that we've done to prepare for the steps ahead, we've identified at least five critical success factors that we

think are very important to ensure the success of our digitisation program going forward.

The first of these is to be absolutely bold in simplifying every aspect of what we do. You heard Mike mention this as it relates to simplifying the range of networks and services and what have you that we offer. For our customers, we have to reduce the number of products and the complexity of each product. We have to reduce the number of pages of legal jargon through which they have to go to get a service activated. We have to reduce the number of different ways they might authenticate into a Telstra network, simplifying it as far as we possibly can.

Obviously, that's good for customers, but it's remarkably important for the success of the digitisation program, so that as we move to a new architecture, as we rebuild certain elements of what we do, we're not bringing with us years and years of accumulated capability that really has little value in the end. Bold simplification is necessary to move rapidly to a new environment.

The second critical success factor relates to an amazing amount of detail on which we're focused, in terms of how we get there. What are the customer episodes on which we need to focus first, how do we get there quickly, what are the elements of architecture we need to stand up in what order, not only to deliver the first benefits to our customers as quickly as possible. But also to create an environment within Telstra and for our customers where everybody can begin to take advantage of the new architecture to digitise things on a much broader basis within Telstra.

The third critical success factor is what I said about ways of working. We have a very substantial effort underway to focus on how we develop the capabilities, the ways of working and how we actually get this done. This is going to have, I believe, a profound impact on information technology in Australia, fundamentally because thousands of people at Telstra and beyond Telstra who work with us that will be focused on how we modernise information technology, how systems are built in the future. This is going to require a major investment in the development of skills and new capabilities that will have a lasting impact on the Australian telecommunications information technology environment.

A fourth critical success factor relates to how Andy and the leadership team and everybody else actually engages with programs like digitisation, not to mention network 2020 and the other activities. Many of these programs at other companies will stumble because very difficult questions get raised and somewhere in the middle ranks of the organisation people get stuck.

Andy has established a management structure, a framework of accountabilities and a rhythm of how we lead the business, so that literally every week the most senior leaders of the company are together in one place working through the very big questions that new programs like this need to have resolved. We are very engaged in the minor details of the top issues facing us on digitisation networks and others.

And then the final critical success factor is something that is very much shifting in every company's favour who is on this journey, and that is the fact that as cloud based computing, as machine learning, artificial intelligence bots and a variety of other technologies come into the mainstream, these are the tools we need to fundamentally shift how we get business done.

And so it is the case that pursing a journey like digitisation today for Telstra is easier and clearer, in terms of how we get it done, than it was even a couple of years ago. So as Brendon did for the network side, I will also share with you some of how we think about how we measure our progress. Clearly, part of what we have to do is to build in fundamental capabilities, foundational capabilities within Telstra, so it is the case that we will look very closely at how well we're shifting to a model of continuous innovation, how we're building capabilities, are we making actual progress with the migration of systems into the cloud, are we training people, do we have more and more people who are capable of working in an agile way.

We will be looking at those leading indicators to really understand if we're setting ourselves up to make the progress we want and to deliver the results we need to deliver, but it's not surprising, when you look at the hallmarks of success, in terms of the ultimate outcomes that because of the importance of digitisation as essentially the central nervous system of a thriving telecommunications company, that every critical success metric for the company, whether it's customer satisfaction, share of wallet, overall profitability, cost reduction, whatever it is, those hallmarks of success are shared by everyone focused on digitisation at Telstra.

But as well, as Andy said earlier, we will look at the specific input measures, leading indicators of whether we're making the progress we should be. So for example, you take a red thread through the organisation and say for that NBN order coming in at the front of the house, how well does it get all the way through the system and ultimately implemented in the network within anyone touching it, without any errors, perfect straight through processing at an accelerated speed. It's a simple measure, but it tells you the end to end truth of the progress that you're making.

So digitisation is a relatively complicated and challenging prospect for any company. But given the impact that it can have on the customer experience, on the operations of the company and fundamentally, into your insight that you have to your customers and products and services, it's not surprising that it is one of the key strategic enablers for our strategy going forward. So thank you for listening to me on digitisation and I will be passing it over to Vicki Brady to talk about the customer experience.

MS V. BRADY: Thanks, Stephen, for that and good morning everyone. It is my great pleasure to be here today to talk to you about the future improvements in our customer experience. You've just heard from Brendon, Mike and Stephen about the areas where our additional capital investment will be spent. Undoubtedly, those investments absolutely underpin the future experience for our customers. I want to

talk a little bit about the network. We know it is absolutely the foundation of our customers' experience with it. Whether you're a consumer customer who always wants to be connected – our research today shows us that Australian smart phone users on average check their smart phone more than 30 times a day – to an enterprise or business customer where connectivity is just simply business critical, we know that speed, scale and resilience absolutely matter to every customer across all of our segments.

When it comes to differentiation, we also expect that, in the future, customers will expect unified and seamless experiences no matter which device or which network they're moving across, whether they're at home, whether they're in the office or whether they're on the go. Our increased capability in end-to-end monitoring and analytics will put us in a much better position to optimise our customers' experience in the moment, including being able to quickly recover in the event of some sort of incident. We also know that the intelligence and increased network capacity that we will have will allow us to rapidly configure products and services for our customers at a very individual level. The investment in digitisation is undoubtedly a huge strategic lever for us in our customer experience and in the experience for our customer-facing teams who are serving our customers each and every day.

As you heard from Stephen, digitisation spans a lot of key capabilities from streamlined processing to improved self-service capability to real-time customer analytics and intelligent infrastructure management. Digitisation means that our customers will increasingly be able to do business with it on their terms. So, undoubtedly, those two key parts of our future investment are critical in our future customer experience but, in addition to those investments, we've also taken a new approach and a new way of thinking about and the importance of customer experience in our business right now. We've established a cross-organisation customer experience program that's all about accelerating our immediate improvement and fixing many of those really basic pain points that our customers experience today.

So first and foremost, we believe a step change in customer experience starts with our brand promise and Joe keeps us honest on this every single day in the way we operate. It takes a whole organisation to be focused on the ultimate customer experience that our customers have through all of those many interactions with us every day. We actually think about customer experience and how we keep this brand promise against four key experience domains. Those domains start with the sales and service experience, they include our products and propositions that we provide to our customers, they include the network and that received usage experience that our customers have, and they also include our relationship with our customers – how we manage that relationship right through their customer lifestyle with us.

The cross-company program that we've got running at the moment has 33 large-scale initiatives included in it and these initiatives right now are absolutely focused

on fixing those most critical pain points for our customers. We think this is the crucial first step. If you're going to hold yourself to deliver to that brand promise, we've got to get these things right. We've got cross-functional teams working very closely together and they're tightly aligned in delivering outcomes in terms of the end-to-end customer experience. So they're all nice words but let me take you through some more of the specifics that sit underneath these programs. Now, I'm not going to cover networks because how could I compete with Brendon and Mike, but they've just taken you through lots of those specifics from a network point of view and what it means for our customers.

So I'm going to start with sales and service and if there's an area that I am absolutely passionate about – I actually think I've got the best role in Telstra – sorry, Andy – because I get to lead the team that each and every day bring our brand experience to life for our customers. It doesn't matter whether you walk into a store, you go into our contact centres or you experience our digital environment, I get the great privilege to lead those teams and, over my first five months here, I've spent a lot of time with our customer-facing teams. We have outstanding people who show up every day to represent our brand and serve our customers. We also have a really strong culture inside those teams of delivering high-quality service to our customers but we've got a lot to do. We've got a lot to do to better enable and support our customer-facing teams and that means changes for systems, to processes and the way we work to set them up for success.

So let me start with some examples under sales and service. What are we doing to make the experience better immediately for our customers? So the first one I want to talk to is the experience a customer has with us when they call up to buy a new product or service from us. We've just been through a program of work to remove from our environment heavily scripted terms and conditions to be read out to our customers when they make the decision to buy from us. We've replaced it with a much more natural conversation with the required information spoken through with the customer at the right point in that conversation. Post a very successful pilot, we've now rolled out this and trained more than 3,000 of our consumer sales consultants and the majority of our 500 small business consultants also.

The results we've seen – we're seeing some pretty incredible results. Firstly, we're absolutely respecting our customers' time better than previously with a reduction in the time on the phone to complete these types of transactions of four to five minutes. We're also actually finding customers have greater clarity at the end of the conversation. They better understand the product and services that they've signed up to and we've also seen a five per cent improvement in our conversion rate in those sales conversations. So it's simple initiatives but having a big impact. Another area we're focused on is absolutely better enabling our frontline teams in terms of the system that they have to support the ability to sign customers up to new products and services.

One of our first focused areas is bundled sales, so where we're selling a fixed line phone and a fixed internet connection for someone's home. Very shortly, we will be introducing into our stores and into our contact centres a single digital interface for our frontline teams to use. What will this do? It will give a standard workflow for our frontline teams. It will dramatically reduce the time it takes to work through these orders for our customers. We believe it will halve the time and, through that standard workflow, we will also be making sure that the orders flow straight through to our provisioning system, reducing time at sign-up but also then ensuring that we deliver first time right more often for our customers.

Another one that I wanted to talk to affects our enterprise and business customers. We've got a big focus on cycle times and, when I say cycle time, I mean that time from the point a customer orders a service from us to the point we have that service up and running. There is some really focused effort around our automation processes. In this year alone, we've halved those times – those cycle times to get service up and running.

And the fourth area I wanted to touch on in sales and service relates to fault. No customer wants a fault and we want to make sure we get it resolved as quickly as possible. One of the key things in that experience is making sure we keep the customer informed about when they can expect their home phone or their home internet service to be rectified.

To keep customers updated on those resolutions, we've now introduced through our Fault Tracker in our 24x7 app the ability for them to know when they can expect resolution and, importantly, when they can expect the technician to arrive at their home. In September, post implementing this, we saw calls reduce by around 16,000 calls and, obviously, much happier customers with much greater clarity around when their fault would be restored. I want to talk a little bit now about products and propositions for our customers. Our focus is simple.

We want to make it just simply easy for our customers through every step in that product experience with a shift to being a customer experience led in the way we design them. The first one I would highlight, Warwick actually referenced in his section, which relates to a pain point around the auto-connection of an ADSL modem. Through some changes we made from an IT and network perspective, we're able to lift the success rate from 65 per cent auto-activation to currently around 90 per cent and on track to deliver to 95 per cent for our new customers.

A really exciting piece is coming in early 2017 for our home Broadband customers and the experience they have with it. We will launch to the market, Australia's first ISP supported hybrid modem. What does that mean? It's the Telstra gateway frontier and it brings together our mobile and our fixed networks into one device. It means our customers will get connected much more quickly and it means if there is an issue on the fixed line, we can keep them connected.

Another big differentiator for us from a product point of view is Telstra Air. It's a really important differentiator that you can only get with Telstra. However, we haven't made it probably as easy and straightforward as it should be for our customers to enjoy that benefit. We've put some initial improvements into our Telstra Air app that allows our customers to download that app. The app will then authenticate that they are eligible for the service over our network. We then get them to enter their Telstra ID and in the event that they don't have one, they can set one up inside the app and then within minutes, they're ready to go on our Telstra Air service. Now, it is a first step. Our goal is to make this even more seamless and easy for our customers. It should be a benefit they can take advantage of without any effort.

The last one under product and services that I wanted to talk about was really bill shock. We know it's a big issue for consumers. No one wants to receive a monthly bill and find that it is much higher than expected. We saw an issue with customers receiving increasing bill shock related to third party mobile premium service charges appearing on their Telstra bill. These charges can range from a number of things – from mobile phone apps to games or other content that customers had purchased.

We've taken a number of steps to help really reduce this and solve this for our customers. So firstly, we've put in a double opting process to make sure that customers are very clear that they're signing up for these billing subscription services. We've also isolated and put specialised teams in place inside our contact centres to be able to resolve these issues more – in a more expert way for our customers. Since we've put these moves in place, we've seen some pretty dramatic results. We've seen our calls come down in relation to these issues by 64 per cent. We've seen the number of credits that we're having to give customers in relation to these issues drop 71 per cent and we've seen our first level of complaints drop by three quarters. So some big improvements to what was becoming quite a pain point for our customers.

The final area under here that I wanted to talk to in the areas we're addressing immediately is customer life cycle. You're going to hear Kevin talk a whole lot more about our strategic re-orientation towards a much greater emphasis on growth from our customer base. A couple of things that we've already implemented in this space: we've recently just turned on – and always on – mobility retention program that is really focused on making sure we retain our highest value customers and addressing other risk areas in our mobile business in a very targeted and systematic way. The program cuts right across the channels that our customers interact with us, whether it be through digital, in-store, our inbound call centres and our outbound call centres.

Another piece very tightly tied with what Stephen spoke about in terms of real time customer analytics, we're in the early stages of our journey around Next Best Action and this is about bringing those vast amounts of data that we have about our customers, whether it be their products and services, how they use them with us,

how they interact with us, and bringing that and making it relevant, so we can make the most of every interaction that we have with our customers, making sure we can present them with the right service or solution that meets their needs or whether it be actually we need to take some service treatment action with them at that point of contact.

We've already started this journey, as I mentioned, and in October we rolled out to more than 8,000 agents across our stores and our contact centre, some Next Best Action capability. And in the very early stages we're starting to see some very positive results. So that's a lot of individual initiatives. I want to now show you how we're measuring and keeping ourselves honest that we're actually delivering genuine improvements in customer experience for our customers.

So in terms of metrics, this customer imperative is obviously not new to Telstra. It has been at the heart of the strategy since 2010. And there have been some very good improvements, in our experience. However, despite these things, our customers are still telling us we haven't done enough to improve their experience. And as I said, we've mobilised a cross-company program to make sure we are addressing these issues with absolute urgency. I wanted to give you a flavour of the metrics. I will talk a little bit about Net Promoter Score, it's obviously the ultimate outcome that we will be measuring. But undoubtedly under these four customer experience domains there are more lead indicators that we monitor to make sure these initiatives are absolutely having the impact that we expect them to have for our customers.

So you can see under here, for example, under Sales and Service, you can see right-first-time is critical. So are cycle times – that time from when a customer decides they want a service from us, to getting it up and running for them. And the third one, the ability to self-serve. As Stephen said, customers are increasingly expecting to be able to do anything with us on a digital self-serve basis. In terms of our products proposition, we think Telstra Air is critical as one of our differentiators, so the usage of Telstra Air is a key lead indicator. We also want to see the assisted effort for using our products drop as we make it a whole lot simpler for our customers.

And we absolutely want to see bill shock complaints drop. In terms of the network and usage experience, obviously there is work going on that Mike and Brendon spoke about, into our ADSL network, and we want to see that received experience for our customers improve. We obviously want to see customers enjoy our network more, and you see that translate into increased usage. And we also want to see faults, and call volumes related to those faults, drop.

In terms of our customer life cycle, how do we measure are we actually managing that relationship with customers better? Firstly, retention rates of high value customers is critical. We also want to make sure that our frontline teams are achieving our cross-sell and up-sell targets when they interact with our customers,

and ultimately, we want to see our customer multi-product holdings lift. So all of these improvements need to then ladder up to support the overall target that Andy spoke about in his opening. We've set ourselves a target, firstly, on strategic NPS, which is an all-encompassing measure. It measures a customer's full perception and experience with us. It takes into account many factors, including the products we sell, their perception of value for money, the service they receive, and their view of our brand.

We've set ourselves a target to lift strategic NPS by three to six points per annum from financial year '17 to financial year '20. We've also set the same three to six point annual improvement in our episode NPS, which measures the actual customer's end-to-end experience with us across the most important episodes, episodes like when they buy products and services from us, or how we perform in fixing an issue if something goes wrong. We're confident with both these short-term initiatives in place, and the investments in our network and digitisation, that we're in a good place to achieve these outcomes and these bold targets in customer experience. I will now hand over to Peter.

MR KOPANIDIS: Thank you, Vicki. And if I can ask Brendon, Mike and Stephen to come up for the next bout of – round of Q&A, I should say. We've got about 10 minutes. We're running a bit behind, so Ian Martin, do you want to go first?

MR MARTIN: Thank you, yes. Question: look, I have to apologise in advance because I may have this around the wrong way, but I think, Mike, you were talking about the extent to which, as you migrate customers off the ADSL network onto NBN, you can reuse 85 per cent of core network capability to provide higher volume services or better interactive services to customers. Was that the point you were making?

MR WRIGHT: No. The point we were making is we are going to invest in the backhaul capability of our ADSL network to maintain customer experience as they continue to grow in demand for the next few years until it rolls over.

MR MARTIN: Yes. Yes.

MR WRIGHT: That investment in backhaul or network capacity is being built using this next generation technology that I was talking about – the transporter routing – so that when they move to NBN, we can re-point that capacity onto the NBN connectivity.

MR MARTIN: Right.

MR WRIGHT: So, effectively, the money we spend is reusable.

MR MARTIN: Right. So you've got this additional capacity. You can reuse it as you migrate to NBN. A lot of that is just to improve the customer experience, putting content closer to them, making their interactive capability stronger and so on?

MR WRIGHT: Most of this is backhaul capacity from the DSLAM itself.

MR MARTIN: Right.

MR WRIGHT: So it's connectivity which – if you think of the NBN world, we can – in the ADSL world, we connect from our core network down to our DSLAMs - - -

MR MARTIN: Right.

MR WRIGHT: - - - and, in an NBN world, we connect from our core network across to the point of interconnect so we can swing that capacity across to the - - -

MR MARTIN: All right. Now, that's the problem there, isn't it – is that you've got all this capability in your network. If the NBN was properly configured, you could actually reuse that – much more of that capacity – interconnect much closer to the customer, perhaps at the FAN rather than the POI, and instead we got this artificial constraint on capacity where you've now got to go through one of the 121 points of interconnection and then you've got this very artificial provisioning arrangement which means you can't use your own network capacity, even though it's there and you could connect closer to the customer and give the customer a much better experience. You've got to go through this very artificial NBN construct in order that NBN can charge CVC pricing.

MR KOPANIDIS :   You don't sound happy, Ian.

MR MARTIN: I'm not happy. I think this is - - -

MR WRIGHT: The only point I will add is we are reusing 95 per cent of it, so that is quite efficient from our point of view.

MR MARTIN: All right. But still, you've got to use what the provision on the NBN - - -

MR KOPANIDIS: We've got 10 minutes, Ian.

MR MARTIN: I will leave it there.

MR KOPANIDIS: Thanks, mate. We've got 10 minutes. Sorry. Roger.

MR R. SAMUEL: Yes. Thank you. Just looking – Mike, you mentioned in your slide that part of your network design principle is all connections are mobile, and your mobile network can deliver speeds up to one gig per second. I'm just

wondering – will the consumer behaviour change post 2020 given that they've got a choice of fixed and mobile and your mobile network can deliver such a high speed. And you also – it has also been mentioned that you've got this home gateway which has got fixed and mobile in there as well. Do you think consumers will bypass the NBN probably in some areas?

MR WRIGHT: Well, firstly, let me comment or clarify the meaning when I say "all connections mobile". What I mean by that is they're not running over mobile. Their actual activation and identity in the network uses the mobile protocol so that we don't have to configure the network each time. When you turn a mobile on, its SIM card identifies itself, locks in its security, its location and organises its own bearers. We're talking about treating a fixed network connection in the same way so that the core network looks and feels the same. So that's one element. The other points you're getting to are – it comes up a little bit but I would just say that it sometimes confuses cellular network technology at one end to a fixed network at the other end and the reality is you just have to look at pricing between the two networks and you see the very, very different constructs of those.

We are seeing discussions around the world but they are closer to what I would call – I will make the word up – fibre to the base station. There's a radical shift if you were thinking about carrying that type of traffic on a wireless network and I think we've got a long way to go to understand what that would be. There is already, of course, use cases on the edge where people do deliver, usually in regional areas, some services over wireless. Our interest is using the spare capacity in our wireless network while people are walking from their home – from the shop to their home to give them service or to service them when there's a network outage.

MR SAMUEL: Sure. All right.

MR KOPANIDIS: Sameer.

MR CHOPRA: Hi. I have two questions. One is – do you see these benefits – with the net promoter score or the billion dollars of cost-out – do you see them occurring in a linear format or are we backended into '19 and '20, which is kind of what I picked up through some of the presentations?

MR KOPANIDIS: We've got a mic in the front here as well, so – Warwick, did you want to - - -

MR BRAY: Yes. So the $500 million per annum benefit from the strategic capex – that ramps up in '19 and then we get the full benefit of that from '21 and the productivity is more linear over the five years.

MR CHOPRA: And the second question is – the enhanced capex – we're kind of seven months away from the end of financial year '17. Do you think you're one third of the way through the program – do you think you will be one third of the way

through the program by the end of this year? What's the sense around how fast is the cadence around the transformation?

MR KOPANIDIS: Andrew will take that.

MR PENN: Yeah. Well, I mean, and the guys on the stage can comment as well. I mean, I certainly think in terms of the investment, yes, we will be one-third of the way through the investment by the end of this financial year. A lot of the investment is front ended towards many of the network initiatives that Mike and Brendan have talked about that we're – that we already had obviously been spending a lot of time thinking about strategically and then digitisation stuff comes on, I guess, a little bit through the program, more so, and then the customer experience initiatives that Vicki spoke about – we'll sort of just run that whole program right across the whole three years. So to Warwick's point the benefits will be towards the end of the program coming through, but in terms of the spend I expect it to be relatively linear over the three years.

MR KOPANIDIS: Kane.

MR HANNAN: Just on Vicki's point at the end there around more focusing on upselling the existing customer base – I mean, we've seen communications spend decline in Australia for the last few quarters, I'm interested to see how much scope you guys think you have to raise prices - to continue migrating increasing share of the communications spend in household wallets.

MS BRADY: Yeah. Well, Kevin's going to speak a whole lot more about it in the retail section, but what we absolutely know – even if you just take our consumer customers as an example, and you look at their product holdings with us today, a lot of our customers – around half – only have one product. We know through our research that those customers that we have a relationship with today are spending in excess of $4 billion with our competitors. So we think through managing that relationship better and be much more relevant and real time around our insight and solutions for them, we actually think we can bring more of that share of wallet over to us.

MR KOPANIDIS: Yes. We'll take some questions from the media.

MR DURIE: Hi. Just a very quick one. What is your net promoter score now?

MR PENN: We don't quote our net promoter score, John. We just have been reporting the movements in the net promoter score. And, look, the simple reason is, is that there is not an industry standard for the net promoter score, and so we want to be transparent, we want to provide information regarding how we're progressing, but there's no point trying to issue an absolute number because it would just be – it won't be comparable and there will be game playing with the other players that just comparing apples and – sorry, apples with pears, so that's why we don't do it. But

we're absolutely committed to improving our NPS, improving customer experience, and then reporting the delta from period to period in the net promoter scores. And, in fact, this is additional disclosure because we're currently disclosing the strategic NPS. And as Vicki said, we will also accompany that with an episode NPS.

MR DURIE: Okay. Could you tell us how much it has moved in the last year, and also whether it's positive?

MR PENN: I won't comment. Well, sorry. In the aggregate, yes, absolutely it's positive, and in the last period it actually went backwards by I think - I'm trying to remember now – four points or five points, and then prior to that in the previous two periods it had increased by three or four or five points in each period.

MR KOPANIDIS: We will take a question on the ConferLink line. The first question comes from Max Mason from The Financial Review.

MR M. MASON: Okay. So I just had a quick question. You look like you've sort of filled out $1.3 billion of that $2 - $3 billion dollar EBITDA gap. You've talked about today things like post-paid handheld machine-to-machine, NBN, data, IT and NAS. Do you think those can fill that, you know, $700 million to $1.7 billion gap, especially since you've pulled out of bigger investments in Asia and there's increasing competition in mobile and NBN?

MR PENN: Look, Max, it's Andy, thanks for the question. I mean, let's be clear. I mean, the $2 - $3 billion dollar impact as a consequence of the NBN is a very, very significant and material impact. What we're laying out for you here is the plans and initiatives that we have in place to try and mitigate the impact of that over the next four to five years in the transition. Productivity, the additional investment and, of course, we will continue to focus on growing our core business and making investments to continue to consolidate on that and really transform our strategic position. But we're not making any forecasts here this morning. We're just laying out the size of the challenge that we have and what we're focused on.

MR MASON: Yes. And do expect to continue to grow mobiles roughly, sort of, 3 to 4 per cent and you might be able to extract another billion over that?

MR PENN: Well, as I say, we're not making any forecasts and to your point a lot of this is a function of how the market competitive dynamics play out, but look, we're really excited by our mobiles business. We've – it's a very strong business. We see great opportunities in the business sector, in enterprise mobility, in applications, in a lot of the content which is driving a lot more usage, so I think we've just got to focus on the right strategies, and we've laid out the challenge that we have, and that's what we're facing into.

MR KOPANIDIS: And the last question comes from Lucy from Fairfax Media.

MS L. BATTERSBY: Hello. Thank you. I have two questions. One is, is NBN taking control of the last mile of the PSTN lifting a millstone from Telstra; and I have a second question for Vicki Brady on revelations in today's paper that Indian companies are selling consumer data for $1,000 a pop or more for VIPs and politicians. What are you doing to ensure data security for consumers, and are you confident that you're complying with privacy laws?

MR PENN: Hi, Lucy. It's Andy. Let me take the first one, and then I will pass over to Vicki. She can comment on what we're doing on privacy. I mean, the decision regarding the NBN wasn't a Telstra decision; it was a government decision and, as we've said many times, we're very much committed to supporting the government in whatever policy it may have as in relation to the NBN. As we've communicated in May and reiterated today, it has a negative economic impact of $2 to $3 billion dollars of EBITDA on the company a year. We do receive some one-off payments in recognition of that, but those one-off payments don't compensate us fully for that, but that's history.

That decision was made a long time ago, and what we're focused on, as I say, is working with the government and doing everything that we can to mitigate the impact of that negative $2 to $3 billion and continuing to build a really successful business providing brilliant customer experiences in what is a very exciting, I think, world from a technology innovation point of view. On the privacy point, I will let Vicki comment as well, but as I said to a question earlier, we have no instances of people selling our data to customers for money or otherwise. I think the – I saw the article on the particular situation you're talking about in relation to India. We have no dealings with that organisation whatsoever. We have very clear controls in place. I will try not to steal all of - - -

MS BRADY: Thanks, Andy.

MR PENN: - - - Vicki's thunder, but I mean, just comments in terms of what we do to protect our customers' privacy which is really important.

MS BRADY: Yes. No. Lucy, it is – it's – the absolute focus for us is keeping our customer data private. We have really strict controls in place. When it comes to our partnership with third parties, we enforce very tight IT controls. We have monitoring and compliance and audits that happen on an ongoing and regular basis. That applies in our own environments and in any partnership environment. We take it – it's absolutely at the heart of a great customer experience. You've got to keep customer data private, so a huge focus for us.

MR KOPANIDIS: Okay. That closes this session Q and A. So if everybody can be back – we will have a short break. If everybody could be back at 12.15 Kevin Russell will provide the retail strategy update. Thank you.

SESSION 2 CONCLUDED

SESSION 3

MR K. RUSSELL: Okay. Starting off on the home stretch. Good morning. My name is Kevin Russell. A few things I just wanted to cover off and brief you on today. Whilst I know a few of you in the room, there's some familiar faces, John Durie, we go back a fair way. I thought it would be worthwhile to share some of my background and some initial thoughts coming into Telstra. I also want to update you on our current trading in market, and share how we are thinking about our change in market environment, and the opportunities we have to grow value in our core.

So I've had the good fortune to be involved in Telecom since 1995. At a CFO or a CEO level working across Hong Kong, Israel, Australia, the UK, and, recently, the US. My operational experience is primarily mobile, greenfields, start up or turn around, and hopefully what I bring to Andy's team is an experienced understanding of how a challenger, a disruptor and non-incumbent thinks. As a result of that challenger experience I also come with a heightened sense of the importance of getting things right from a customer standpoint, and of squeezing the maximum value out of every dollar. Having competed against Telstra for more than eight years across two very different brands and competitors it has been interesting to join the other side. And hopefully I'm bringing with me a fresh set of eyes and a fresh set of perspectives.

So my biggest reflection coming into Telstra are in the strengths of our core assets that we have at our disposal, and trying to think through how we maximise the resultant opportunities. At a time of significant market change our company enjoys leadership in a number of critical areas. Firstly, the Telstra brand. Operating under a strong – operating under a brand that is recognised at the forefront of technology is a strong competitive advantage at a time of accelerating technology adoption. The brand is highly resilient, and enjoys industry leading levels of trust with Australian consumers and businesses. It also enjoys a brand premium in the marketplace.

This is despite our services not always delivering at the levels we would want. Our immediate opportunity, as very passionately outlined by Vicki Brady, is to substantially grow those trust levels and maintain that brand premium by obsessively delivering on a brand promise to our customers day in and day out. Deliver here and we are very, very hard to beat. Then our network. Our network leadership is well recognised. I've now built, grown and operated four other mobile networks and travelled extensively, experiencing some of the best networks in the world. The Telstra mobile network is, by a margin, the best network I have experienced.

The strategic opportunity that Andy, Brendon and Mike have all laid out – is to cement our network leadership position, as the depth and resilience of industry

infrastructure is challenged by growing customer demand and new services. The experience that customers enjoy with Telstra's networks has been and will continue to be our most important source of competitive differentiation. The Telstra leadership asset is our reach. Over decades we've invested and committed to regional Australia. Not just in terms of infrastructure such as the first to bring 4G to regional Australia, but, more importantly, in people, relationships and brand connections.

With almost 5,000 employees regionally our regional reach and relationships are differentiated. Flying new faces in and out on planes from Sydney or Melbourne is not the way to do business in regional Australia. As NBN rolls out, and as regional businesses seek more personalised solutions, we are uniquely placed to execute and deliver locally. And then, finally, and most significantly, our most valuable asset – our customer base. We enjoy leading market share across core customer segments, and are invested in those relationships over many years. We also have unique access to market within levels of data and insights from our customers.

Our opportunity is to fixate on understanding our customers' real experiences with Telstra, to deeply understand their needs, and then to leverage our product breadth and brand position to become a trusted end to end technology partner for many years ahead. As I will touch on later, our opportunities here are significant. So if we turn to the dynamics of the underlying business it has been and is an important trading period for Telstra Retail. As you know, we experienced network outages that impacted our customers and our brand reputation in the first six months of the calendar year. At the same time, our mobile competitors have invested heavily to try to narrow the coverage gap, and price competition has become increasingly intense in mobile and fixed as competitors seek to regain market share.

In this context, our underlying market performance in recent months has been encouraging, proving the resilience of our brand. In mobiles, post-paid net customer growth has been consistent with a corresponding period last year, prior to any outages. Critically post-paid churn into the first six weeks of the iPhone 7 launch have also remained consistent with financial year '16. The stability in our churn rate is particularly encouraging, given the significant volume of customers coming out of contract during the iPhone launch period. We've also enjoyed an improving mix of iPhone customers taking up higher value plans.

Market competition over recent quarters has been particularly aggressive in lower end BYO plans. And whilst this impacts us to a degree, our core market focus is in high value customers taking out handset repayment plans. Our overall mobile service revenue is also starting to stabilise. Over the past 18 months market price and aggression has driven higher plan inclusions. For example, our $95 plan data inclusion has grown fourfold from 2.5 gigabytes to 10 gigabytes. As a result, the recent quarters have seen an erosion in out of bundle voice and data revenues and, overall, a decline in mobile service revenue.

However, again, encouragingly, we have seen mobile service revenue in Q1 stabilise against Q4 of financial year '16. And we expect the impact of eroding out of bundle revenues to reduce during the course of this financial year. Handset costs have been increasing, but customer contributions have kept pace. Last week we launched a new leasing product for a consumer and small business customers, which we believe will address a growing market need for more regular and cost-effective smartphone upgrades, and help to address the growing market inefficiency of customers accumulating old phones in their drawers at home. In the first week of launch we've seen very positive uptake from customers.

In summary, in an increasingly competitive mobile market we are holding market share in and growing our mix of high value customers. Like mobile, the fixed market is experiencing intense price competition. To put it in context, sub-$80 access prices now represent 65 per cent of market connections, up from 40 per cent two years ago. In addition, unlimited data plans are now available from all of our competitors. Within these market conditions we've continued to perform strongly. Some of our core operational plans in fixed include, firstly, the continued proactive recontracting of our base where we are protecting value through bundling and retention offers.

Bundle penetration of our broadband base increased from 77 per cent at the end of financial year '15 to 83 per cent at the end of financial year '16. Secondly Belong, our challenger internet brand has continued to offer competitively priced plans, and now enjoys a customer base of over 100,000. And, finally, we're also leveraging our unique assets, like Telstra Air and Telstra TV, to differentiate and protect high value share. For financial year '16 we were pleased to see 71 per cent of our new consumer NBN activations are subscribing to Telstra Air. And we now have over 530,000 Telstra TV devices in households across the country. This makes Telstra TV the fastest growing streaming device in Australia. Our customers are using this device for an average of 14 hours per week. In NBN we're content to secure more than a 50 per cent market share, supported by strong regional execution.

And in Q1, as Andy mentioned earlier, we achieved 54 per cent share of connections. The migration to NBN comes with resell economics and the need for us to drive down our connection service costs. In financial year '16, our NBN activation episode NPS increased 20 points in 12 months, and at the same time the cost to connect customers improved 18 per cent compared to the same time last year. Telstra's recent introduction of the self-install kits is part of our ongoing cost reduction and customer experience improvement plan. Self-installation rates have increased to 78 per cent of customer connections in October.

In PSTN our trends remain consistent, with strong retention activity through bundling, helping to stem the rate of decline. Overall in fixed, we are focusing on the necessary cost efficiencies to support a very different economic model through NBN. Finally, our network application services (NAS) revenues in Telstra are continuing to grow strongly, and we expect our NAS revenues to exceed our data

and IP revenues for the first time in this financial year. Increasingly, our 1.1 million SMB customers are seeking NAS services integrated into core connectivity services. For our customers with less than 20 employees, our strategy is to bring to market a range of simple and intuitive business solutions that bundle connectivity and cloud-based NAS services.

Some numbers: 64 per cent of our managed customers where the businesses spend between $50,000 and $2 million annually, buy our NAS products. Our cloud business is growing at 30 per cent per annum. Estimated at over double the underlying market growth rate. And our managed network services have grown at a CAGR of approximately 50 per cent for the last three years. In summary, NAS continues to represent a significant growth opportunity that we're executing on.

So what lies ahead for our Retail business? Our market environment is changing significantly. In recent years we've built up a strong revenue and profit growth in connectivity, driven by aggressive customer acquisitions, and we have enjoyed a premium market position largely defined by our network differentiation.

We are now at an inflection point. The connectivity market is maturing and revenue growth is slowing. The essential place that connectivity has assumed in the lives of our customers is a driving force behind market change, producing an explosion of data consumption, widespread adoption of cloud and OTT services, as well as increasing demand for effortless personalised service. We are seeing shifts in overall industry economics, driven by evolving customer needs, an increasingly competitive environment, and of course changes in market structure through NBN. At the same time, technology is accelerating change in some areas and presenting opportunities in others. A steep rise in the number of connected devices points to the prospect of new IoT service revenue streams from a connectivity base.

And big data presents opportunities in the form of granular insight anticipating customer needs, combining with natural language processing for new forms of digital service, to name just a few. With this scale of market change, we need to be very clear on our priorities and opportunities in Retail and very clear on how best to leverage our assets for growth. Andy, Stephen and Vicki have all talked about our plans to transform our customer experience with our brand. This is absolutely the spearhead of our retail strategy to drive value in the years ahead. Telstra has the customers. They are our most valuable asset. Our opportunity is to be great at understanding what they care about and their evolving needs, and prioritising our service and delivery against that.

Most significantly, we are focusing on improving how we manage cross-sell, up-sell and retention within our customer base. Improving customer experience and strength in advocacy for our brand will open up opportunities to drive significant incremental value. Some interesting numbers, some of which Vicki has already mentioned earlier. Currently, our customers spend over $4 billion with other providers, despite Telstra having leadership position in product offerings.

Over 40 per cent of our customers subscribe to only one Telstra product. Interestingly, the churn rate for customers with two or more products is less than half that for single product holdings and the churn rate for customers with three or four products is 85 per cent more than for a single product holding. Clearly, the opportunity to generate incremental value from an existing base is significant. There are also material segments of the consumer market where we are under indexed in share and we believe that the Telstra brand can be extended with the right product offerings.

An example is the customers who speak languages other than English - in the LOTE market who account for as much as 23 per cent of the Australian Telco market. LOTE and youth opportunities can, to a large extent, be tackled through the Telstra brand and the price sensitive segment is within reach of our challenger, Belong. These are large enough markets to pursue in their own right, but also represent strong growth prospects as more price sensitive younger customers graduate to premium products and LOTE customers continue to grow as a proportion of the Australian market. In network applications and services, I talked earlier about at current growth momentum.

Our expectation is to continue to markedly outstrip underlying market growth in a market where we have the existing customer relationships, an outstanding brand reputation and leadership and product offerings. Finally, and significantly, as Warwick referred to earlier improving how we spend our money is fundamental to Retail's future success. The cost structure for Retail and financial year 2016 is significant, comprising $5.4 billion of direct variable costs and $2 billion of non-direct variable costs. We are challenged in how we better directly align our variable costs with our revenue and margin growth, particularly in relation to how we drive value from our existing customer base.

On non-direct variable costs, we are starting to address any inefficiencies. Some examples: We restructured the retail organisation in September, reducing costs on an annual basis by over $100 million, but more significantly, we reduced layers and duplication to facilitate as our speed to market and to support our front line. We're working through route cause failures and customer experience to reduce costs associated with contact centre volume, average handling claims, as well as removing the expense associated with not resolving customer transactions correctly the first time. We're also finding marked opportunities for digital productivity. An example is the acceleration of digital bill adoption to customers who don't presently take advantage of digital or email bills.

Just to reinforce Warwick's presentation earlier, we believe that the opportunity to substantially improve our productivity is material, it's real and it's executable. Earlier this morning we talked about the cross-functional progress being driven at Telstra across culture, network 2020 and digitisation. They are all integral to Retail delivering on these opportunities going forward. How we do things and how we

work can be improved. Our focus is on prioritising customer experience through our decision making, but critically, this must be executed by teams that are joined up and collaborating well with simple shared KPIs.

We're also reducing activity and challenging ourselves to simplify down to what is important to get right. Fewer layers and fewer managers are helping to support these behavioural changes. Network differentiation is absolutely core to Telstra's ongoing leadership and delivering great customer experience. The investment in network 2020 will deliver leadership and next generation services and help our customers seamlessly access our services across multiple networks. And then finally, to digitisation. We need to understand our customers brilliantly.

We need industry leading identity and authentication processes. We need simplified charging models, we need consistent experiences of our brand across every channel. Our frontline people need tools that facilitate fast, easy customer service and our customers expect intuitive self-care applications. Our improvements in these and other areas through digitisation will improve a customer's experience of Telstra and also remove cost and efficiency. Supported by these investments and through customer experience led transformation, we have a clear plan to leverage our assets and drive growth and value from our core. With that, I would like to hand over to David Burns and Michelle Bendschneider to talk you through GES.

MR D. BURNS: Thank you, Kevin, and good afternoon, everyone. In this session, I'll cover the financial performance and detail the key strategic objectives of our growing Global Enterprise and Services business, and then I'll hand to Michelle who is our Executive Director of Global Products who will talk about how we're set up to grow in the future by delivering world class technology products to our enterprise sector.

So, today, Telstra has more than 6,000 people in Australia and globally providing services to our thousands of enterprise and government customers. In Australia, we have developed a comprehensive suite of products for all types of business and government agencies as well as tailored solutions for key industries such as media, mining and financial services.

In international markets, we serve mostly multinational corporations, particularly those with significant operations in the Asia Pacific region as well as other carriers and technology companies delivering services over the top of the network. With revenues up 11.5 per cent to $6.3 billion, Telstra has one of the fastest growing enterprise services divisions of any major telecommunications company in the world last year. These results were driven by a strong performance in our growing NAS business, enterprise mobility and international. This growth was partially offset by the expected continued decline in our data and IP businesses as outlined earlier.

When it came to NAS, we achieved another year of double-digit growth as we continued to standardise our offerings, progress toward the lower-cost model and

with margins improving by three percentage points year on year. This is consistent with the prior statements that we've made in regards to NAS margins and achieving margins in the mid-teens in the medium term. In enterprise mobility, we achieved strong growth in post-paid and machine to machine services. Internationally, we successfully progressed the integration of Pacnet achieving year on year revenue growth of more than 50 per cent as previously mentioned. We're able to deliver these strong results by combining global connectivity infrastructure with leading technology solutions.

As technology removes barriers that previously existed between traditional infrastructure operators, IT providers and software developers, Telstra has the opportunity to expand in the multitrillion dollar global enterprise IT services market. We see this convergence at play in recent customer wins including extension on our relationship with NAB to provide a whole business solution and supplying integrated cloud solutions to one of the major supermarket chains in Australia.

Internationally, we secured our largest ever international services contract with an insurance multinational earlier this calendar year and a breakthrough contract with one of the world's largest oil and gas companies, and we've been extending our – the solutions – excuse me – that we provide to businesses that are active throughout Asia such as the Fitness First gym chain.

Our in-country joint ventures, businesses in China and Indonesia also passed major milestones. In China, Telstra PBS secured contracts with international technology companies for use of our data centres and, in Indonesia, telkomtelstra recently signed their 50th business customer.

We enhanced our capabilities with the acquisition of companies like Kloud and Readify, which has reinforced our credentials as the leading provider of enterprise Microsoft products in Australia and has brought more than 250 specialist enterprise software developers into our business. We've continued to make significant progress in enhancing our product portfolio and launching industry-specific solutions which culminated in more than 40 industry awards for those products and services.

To continue growing in what is a dynamic market, we will focus on three strategic pillars: firstly, unlocking new customers and revenue opportunities; secondly, to evolve our portfolio to meet the needs of customers in a digital world; and, thirdly, simplifying and digitising our operations to build a globally scalable business.

Under each of these pillars, we have a series of imperatives. Firstly, in unlocking new growth, this includes initiatives such as strengthening our capabilities in mobility and security, continuing to grow in the international markets and expanding our offering of network services. In addition to this, we see exciting opportunities to continue in some of the key industry verticals: media, mining, agribusiness and, of course, financial services.

Evolving our portfolio includes continually building on our core network and improving our scale and capability. A key objective here is to develop solutions that empower our customers to operate in a fully cloud-based software-driven environment. In Australia, we are continuing to transition our customers off the legacy copper network onto an IP-environment that's part of the rollout of the NBN.

Transforming to a scalable global business refers to digitising our operations, strengthening our channels to market and enhancing our international brand and, finally, underpinning this is our commitment to customer experience. We believe that, with our world-class networks, platforms and applications, Telstra is well positioned to be the technology partner of choice for leading global enterprises.

I will now spend more time on our business outside of Australia as international growth is central to our long-term success. Our global network remains the centrepiece of our international business. With a combination of Pacnet and Telstra networks, we manage around 30 per cent of the active intra-Asia submarine cable capacity. Our market position was recognised recently when Gartner assigned Telstra the highest product score in both Low Latency and High Capacity networks in their latest Critical Capabilities Asia-Pacific report.

We are continuing to invest in the network – in this network leadership. In the last 12 months, we've added a further 46,000 kilometres of subsea fibre cables, taking our total to well over 400,000 kilometres globally in total. We've invested in new overland fibre routes in Taiwan and the new Sydney-to-New-Zealand cable route is nearing completion. We've secured capacity in the Bay of Bengal and faster cable systems that connect Asia to the major markets of Europe, the Middle East and North America.

We also recently announced an MOU with several parties to progress towards establishing a new Perth-to-Singapore cable. The strengthening of our international network continues to be critical in winning major contracts. This would include the recent $243 million deal with the Department of Foreign Affairs and Trade to provide a wide area network access across 160 sites globally. It has also helped us to secure new business with Kmart, part of the Wesfarmers Group, supplying our software-defined network to connect them from Australia to Asia.

Building on our connectivity footprint, we are expanding our share of the enterprise services market. We see the opportunity as being particularly exciting in cloud where we believe we can be the leading provider of managed hybrid cloud services in the Asia-Pacific region. We now offer a cloud management platform internationally that provides companies with end-to-end management tools to simplify the experience of connecting, buying and managing cloud services and integrating to platforms such as AWS, Azure and IBM. Another differentiator for Telstra is the technology solutions we bring through our portfolio of Telstra Ventures such as the business communication software provider, Whispr, and the electronic signature solution provider, DocuSign.

Today, around one third of our GES employees are based internationally. Asia remains a key geographic priority for us. Our scale in the fastest growing economic region in the world is a key to winning business in Asia itself and opens doors for us with multi-national companies in Europe and the United States who are looking for a technology partner in this region. Singapore and Hong Kong are the key hubs for our international network and for our suite of network services.

We also have one of the longest-standing offices of any foreign telco in both Japan and South Korea. In China and Indonesia we're also targeting in-country business through our joint ventures, and India remains a key capability hub as a strategic market where we've had a presence for more than 25 years. Outside of Asia, our presence in Europe and the United States gives us access to decision-makers at key global firms as well as allowing us to participate in some of the world's top enterprise technology ecosystems. Now, to move towards our products. To support our global growth agenda we have aligned our product strategy to focus on globally – developing globally consistent and scalable products. So to discuss this further I would like to hand over to Michelle who will take you further through that. Thanks, Michelle.

MS M. BENDSCHNEIDER: Thanks, David. Good afternoon, everyone. In this last section of updates I'm going to describe what's in our B2B product portfolio and what our road map is in the coming years to develop that further, and I'm also going to talk to you about some of the strategic acquisitions we've made to support our B2B growth. In Australia, as you are aware, we have a very rich and deep product portfolio, and it is very network-centric, highly scalable and secured, and we've traditionally built our products in discreet segments around networks, unified coms, security, mobility, cloud, and data and IP. We're now extending these product segments and building them out in such a way as to enable converged solutions reflecting how our customers are using these services.

Increasingly, our customers are consuming products delivered on integrated platforms connected by numerous access methods, and our approach to building these products reflects that change. For example, where our customers may have previously bought collaboration products delivered on premise and connected by Telstra's network, they are now increasingly buying collaborations applications that are cloud-based, mobile-enabled, secured and delivered over the network.

This shift in consumption, along with the trends and software, globalisation and disruptive technology, is at the heart of how we've structured our product portfolio, global connectivity and networks, global platforms and global applications with enterprise mobility and security completing the set.

Our call carriage and network products are managed via the global connectivity and networks portfolio, and global platforms include the Telstra Programmable Network

which, as Mike described is our software defined network and network function virtualisation product suite as well as our global cloud management platform.

Global apps incorporates all our productivity, collaboration, contact centre and other enterprise and business applications that Telstra offers our B2B customers. Recognising that many of our core access products were at risk by new technology and the NBN network in Australia, we took the measure of undertaking some controlled disruption within our own portfolio, and this is especially relevant in our traditional unified communications product set which previously was predominantly device-based and on premise, but is increasingly now software enabled and delivered on the cloud, enriched by Telstra-unique applications and intellectual property.

In connectivity and mobility, we are once again embracing controlled disruption to drive change in our portfolio. We are building access-agnostic products that operate on top of platforms allowing us to more rapidly deploy them where we don't operate the access network which is obviously relevant for NBN in Australia as well as in global markets where we don't operate terrestrial networks at scale. In security we offer advanced security products embedded in the network and a growing portfolio of managed security services from the endpoint of the application and, of course, the network. In mobility we're leveraging our strong footprint in core mobile connectivity in Australia to extend into services such as the internet of things, managed services and our recently launched LANES specialist product for emergency services.

Looking forward, we have a comprehensive product development roadmap to develop new products, enhance existing in-market products to improve our customer experience as Vicki described and actively exit legacy products as part of simplifying our business. To deliver on this roadmap, we are partnering with leading technology providers. We're working with Cisco, Microsoft and AWS on our cloud product development, while both Cisco and Microsoft will also play a really key role in our global application portfolio. So we're working with Genesys on our contact centre technology for BroadSoft on our IP telephony products as further examples, while our enterprise mobility offering will support leading brands such as Apple.

In connectivity and network, we will enhance our core data and IP and international connectivity access products with many services. We're also evolving our network product solutions with software enablement and virtual device management solutions. In platforms, we will extend and harmonise our software-defined networking and network function virtualisation platforms globally under the brand of Telstra Programmable Network. This will include integrating our Pacnet PEN network internationally and Symphony in Australia and retiring both of those as individual brands.

We're maintaining a focus on building re-usable platform foundations that can support our own applications portfolio as well as giving customers the flexibility to

adopt their own. This includes platforms that support public and hybrid clouds, collaboration products and open stack developer platforms. We anticipate this development stream will be very active over the coming years to embrace evolving technology and to support the huge growth we expect will occur across the economy and cloud adoption. In global apps, we're developing deeper penetration into cloud application solutions extending software into our traditional UC and collaboration portfolios.

We're continuing to further develop our portfolio in Office 365, Skype for business, mobility application and industry solutions for our customers globally. In mobility, we are balancing the maturity of our core carriage products with high growth solution in managed services and IOT. Our enterprise mobility manage service aggregates device platform, application, telecom expense management and analytics into a global as a service model. We've also developed unique products leveraging the quality and innovation in our network. Telstra LANES offers priority access to our mobile network for emergency services organisations to respond in times of crisis. We plan to make a version of this service available for other enterprise under certain conditions.

We're also looking at product options for providing business customers, a consistent service experience across mobiles as well as public and managed Wi-Fi network. A big play in mobility is in IOT. In Australia, we already support over 1.8 million M2M devices through our mobile network. We recently launched a new IOT platform that allows customers to centrally manage devices, control their data feeds and automate business logic. We will continue to refine this platform with narrow band technology Mike talked about over our existing LTE network and we will deliver Australia's largest and most reliable IOT access network.

Finally, in security, we're building a global managed security services portfolio and investing in world class cyber security operation centres for our customers. Our first centre will be completed this fiscal year in Australia and we will continue to roll these out in Asia, Europe and in the United States over the next two to three years. We're adding to our product mix by introducing security products that bring together physical and cyber security products. Also, software enabled predictive analytics and machine learning algorithms will underpin this portfolio as we build out the roadmap in the coming years.

Our acquisitions and JVs have been a key part of how we expand our reach and fulfil our ability to deliver complex solutions to customers. We've made a number of acquisitions in recent years in business services, each of which has been carefully targeted to ensure it strengthens our core and has strong strategic rationale. The acquisition of NSB in 2013 enabled us to expand our professional services in the collaboration segment especially in contact centre technology. To further scale our technology consulting skills, we went on to acquire O2 Networks and Bridgepoint giving us expertise in high-end network and security services. Our Globecast

acquisition has given a compelling position in the broadcast services market having launched our new state of the art broadcast operation centre.

We now count some of the world's largest media companies as customers. For example, earlier this month, Channel 7 used our Globecam service as part of the Melbourne Cup broadcast, and we've connected 21 stadiums through our digital video network so the Australian National Rugby League can operate these centralised video referee and data analytic facilities.

In financial year '16, we completed four acquisitions. The acquisition of Kloud was a big step towards growing our multi cloud strategy by bringing in a high-end Microsoft and AWS cloud migration capability into Telstra. Earlier this year, we also acquired Readify where we added world-class software development and analytics capability to further extend, enhance software. We also acquired CBO Telecommunications which provided further reach into connectivity and services for the mining industry, and most recently, we acquired MSC Mobility which boosts our skills in the rapidly growing enterprise mobility managed services space.

This brings the total number of acquisitions we've executed in the B2B space to 10 over the past three years since GES was formed. Additionally, we've entered into the PBS and telkomtelstra joint ventures.

Our earlier acquisitions including NSC, O2, Bridgepoint, Globecast, Cygnus, Satellite and Kloud are all now embedded in the business and delivering on their respective business cases. The recent acquisitions of Readify, MSC and CBO are in the early phases of integration and are aligning really well to date. We'll continue to look for new inorganic opportunities to extend our capabilities in a targeted and disciplined manner and always in line with the strategy. Thank you very much, and I will now hand back to David to sum up.

MR BURNS: Thank you, Michelle. So, in conclusion, GES has achieved another great year of positive results for Telstra on the back of a continued strength in our core of our growing NAS mobility and international businesses. Looking to the future, we expect international markets to play a key role in our business as we continue to build on our network global footprint and evolving capabilities to grow market share and increase our international revenues. To succeed in both Australia and internationally, we know we need to enhance the breadth and depth of our global product portfolio that Michelle just took you through. We have a clear strategy and a product roadmap to enhance our portfolio around the key themes of connectivity platforms and applications.

Delivering on the roadmap will involve combining our own expertise in networks with the global leaders in enterprise technology to help our customers generate efficiencies in their business, develop new products and connect with their customers. It will also help us to continue to improve profitability in areas such as

NAS by simplifying our business and driving greater scale and a global delivery network or model.

Our product roadmap is supported by our acquisition strategy as you've just heard as we invest into these companies such as Kloud, Readify and enhance our in-house capabilities such as CBO telecommunications to extend verticals like mining. We are confident that our momentum and growing scale in GES combined with global trends such as the convergence that is underway in the enterprise services market, an economic and data consumption growth in Asia – we will continue to build a strong enterprise business. Thanks for your attention in this section, and I'll invite Peter to come back and facilitate some questions.

MR KOPANIDIS: Thank you, David, and welcome back Kevin and Vicki. Fraser, do you want to go first up?

MR McLEISH: Yeah. Thanks. A couple for Kevin, I guess, once you've sat down.

MR RUSSELL: I recognise that voice.

MR McLEISH: Just your thoughts on bundling fixed and mobile. I mean, you're talking about cross-selling. Obviously, Optus is bundling a bit more aggressively. Vodafone is likely to when they launch a fixed product. It's something Telstra hasn't really done much historically. Do you think that's something we're going to see you do more of?

MR RUSSELL: I think a consistent theme through all the presentations today from Andy's down are around customer experience and ability to leverage the base. There is no question we have a phenomenal asset with the customer base, a phenomenal range of products and, by definition, that means the bundling opportunities are strong. The numbers that Vicki shared earlier and I shared again says that there's a lot of our customers – a surprisingly large percentage of our customers have single products and the churn rates just reduce dramatically. So we're seeing three or four products – 85 per cent reduction in churn so, by definition, there's a really exciting financial opportunity for us that you should see us execute increasingly on going forward.

MR McLEISH: Great. Thanks. And then the other one was – just on these new mobile handset leasing plans and just the sort of economics of those, particularly around – on handset subsidies. Does that have a meaningful impact on handset subsidies, either up or down?

MR RUSSELL: I think, if you look at how they've gone into the marketplace just now, you will see an increase in some of our MRO pricing, which is attractive, so what we're doing is leveraging some of the inefficiency in the marketplace in terms of those second-hand handsets that are just sitting in drawers, so we do anticipate –

well, I'm hopeful that a more efficient model for handset subsidy can follow as a result.

MR KOPANIDIS: Okay. Thanks. Nick Harris.

MR N. HARRIS: Thanks, Peter. The question for you, Kevin – obviously, your colleagues have talked about simplifying business and the processes. On the retail stores, can you give us a bit of insight? Are we – Should we be expecting some changes there as Telstra obviously moves from telco to technology or are you expecting bigger stores, smaller stores, more stores, less – that sort of thing?

MR RUSSELL: I'll answer the first – I think there was a couple of questions in there. One, I think there's an opportunity to improve experience in the store, which I'm going to ask Vicki to speak a little bit of. If you look at the store footprint, again coming in – fresh eyes – fresh perspective – we have an outstanding store footprint and I've been really impressed with the quality of people we have in-store and we have some very strong – licensee partners also backing us in-store – well, a lot of opportunities to optimise that footprint to a degree but not substantially change it and we have some opportunity to execute better in some areas and some particular geographic segments that we're thinking through, but you should not be thinking of any substantial change in that footprint. I think there is a very exciting opportunity as to how we will leverage that footprint for small business customers. Most of them, you've seen to date, so that's something we're also aggressively looking at just now. In terms of digitisation in store - - -

MS BRADY: So I think there's huge opportunities in the efficiency in store that I referenced a little bit earlier in customer experience. Beyond that, as we think about the store footprint, it's the role we play in the customer journey and customers – increasingly, their journey with it might start digital. As they research, they might come into the store for some advice – some solutions. They might end up in the contact centre as they follow up, so a big part of enabling our stores and the role they play in the future, I think, is that the heart of digitisation is that full view of customer across all of our channels and then ensuring – as we move forward, I think that role of face-to-face channel becomes much more solution-orientated for our customers, helping them with things like Smart Home as an example.

MR RUSSELL: I think one of the areas we think is probably slightly underdone – because I think there's an immediate interest to gravitate digitisation under online for consumer. I think there's probably more opportunity in small business than we've seen and a lot of – Andy Ellis in this room is screaming out for support on distribution and digital in small business.

MR HARRIS: Thanks very much. Just a second question from me – maybe for Warwick or Andy. Obviously, GES and NAS is growing very fast and that's certainly going to help replace some of the hole from the NBN but how should we think about

that impacting the earnings from the business, the international split and, I guess, the implications for franking credits as we look forward about five or six years.

MR PENN: I mean, obviously, the opportunity internationally is pretty significant. We saw, whilst on the one hand we had NAS growth overall – well, sorry – GES growth overall of 11 per cent last year – it was 55 per cent when looked at through an international lens, but that's very exciting. It's coming off a lower base but, nonetheless, now $1.7 billion, so I'm not ever going to get into a world of predicting proportional sort of targets going forward, but nonetheless we would expect that to grow.

I mean, at this stage I'm not sure that that's a significant – has significant implications for franking credits, but I understand your point, obviously, if the proportion of earnings from overseas grows that does reduce the proportion of franking credits that are available and obviously we will take that into account in our capital management considerations as we move forward, but I'm not sure I can, sort of, say anything more than that at the moment.

MR KOPANIDIS: Kane from Goldman Sachs.

MR HANNAN: Just on the NBN market, so you're talking about the challenging economics in that it is obviously going on, but can you just give us an update some margins you've, sort of, seen currently in that business and, sort of, longer term targets?

MR RUSSELL: Warwick, I think the longer term targets have been in around 20 per cent; is that correct?

MR BRAY: Yes. Look, I don't think we've being specific in – you can get at the gross margins because you know what the NBNs ARPU is that's published which is effectively our variable cost, and then after that what our margins are is going to depend on our cost to serve and the ARPU what we can say is that our EBITDA margin will be substantially below our fixed EBITDA margin of today which is 50 per cent.

MR HANNAN: And then just talking about the price premium you guys can charge in mobiles currently, does that – how are you guys thinking about that and whether that changes following these network investments you've been talking about today or is that more just to maintain this premium?

MR RUSSELL: It certainly strengthens on the back of the network investments and Mike Wright's statements today were quite unequivocal in terms of the step change it gives us in terms of network resilience, strength, depth and capability. If you think through how we're thinking, brand premium it is broader than network, and I think network has been a core part of brand premium, historically, but if you go through where Vicki was talking about improved experiences in sales and service, customer

lifecycle, product, we are looking at brand premium being supported by a range of capabilities that our customers experienced beyond network, but the network platform absolutely will be a core part of the premium going forward.

MR KOPANIDIS: Thanks. Sameer, lucky last.

MR CHOPRA: Lucky last. I will take you out.

MR KOPANIDIS: First and last. You are the bookend today, Sameer. Good job.

MR CHOPRA: Bookending Investor Day. I had two sets of questions. One is just – Kevin, thanks for raising the SME segment. I just wanted to get an understanding around how you are seeing competitive dynamics on the fixed line aspect of the SME segment market where you play against TPG and Vocus. We've been hearing that prices had come down significantly and I was just wanting to get a sense around what you're seeing in the market there.

MR RUSSELL: Yes. So it's definitely fair to say that TPG and Vocus have been aggressively targeting the fixed market, absolutely – and SME market. Sorry. And we have seen pricing coming down. Again, the theme of the presentations is the strength that we have in NAS and ability to differentiate in terms of integrated services is a critical part combined with the fact that we have strong existing relationships – very strong presence in regional Australia. So the number of assets that we are leveraging to make sure that we compete strongly, but it is absolutely a competitive marketplace just now,

MR CHOPRA: Are you losing customers in that space to the other two or are you able to hold customers given you have the NAS product?

MR RUSSELL: The performances we are having in business and in consumer across fixed and mobile are solid performances. So we're actually – those relationships – and again, it's the theme of – one of the things we've seen today, there's a resilience to the brand that we've seen hold up very solid in the marketplace. There's areas which we will strengthen the product propositions going forward but you've seen a level of strong brand resilience, but you are seeing heightened competitive environments.

MR CHOPRA: And the second question was – maybe this is one for Stephen or Warwick or Mike – is we spoke about five times data growth on mobile networks. What does this mean in terms of the spectrum that you have? Do you think you might need to – because the spectrum coming up in April next year, and I think under the legislation now you can buy 10 megahertz. Just wondering, are you in the market for more spectrum?

MR WRIGHT: That's a terrible question to ask an engineer, but - - -

MR CHOPRA: Of course you want it.

MR WRIGHT: We actually model multi-year spectrum and, of course, in the future we will need more spectrum. There are a number of packets of spectrum coming up in low band and there will be more in high band later in the decade, so we are watching what – how that unfolds and at the time we will put a detailed plan forward and we will acquire what we need, but for now we've got a very good holding of spectrum, very good low band 700, very good 1800, very good 2600, so we're in a very good position for the foreseeable future and then, as I say, we will model that and see what our requirements are at the time.

MR CHOPRA: So in April it's highly unlikely that Telstra will be bidding for that?

MR WRIGHT: We're always interested in all bands of spectrum and we're looking at an integrated plan, and to do that we need to look forward a number of years.

MR CHOPRA: Okay. Thank you.

MR KOPANIDIS: Okay. Look, thank you all for your attendance. Thank you for your continued interest in Telstra. That closes today's Investor Day. There is a light lunch served outside so, once again, thank you for attending in person, also those online.

SESSION CONCLUDED