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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Telstra Investor Day – transcript**

In accordance with the Listing Rules, I attach a copy of the transcript from the morning session of the Telstra Investor Day held on Friday 18 November 2011, for release to the market.

Yours faithfully,



**Carmel Mulhern**  
Company Secretary

**Telstra Investor Day**  
**18 November 2011**

**Ben SPINCER:** Good morning everyone. My name's Ben Spincer, head of Investor Relations at Telstra. On behalf of the company I'd like to welcome you to this our 2011 Investor Day. In a moment I will hand over to the CEO, David Thodey, who will be talking to you about the agenda and providing an update on the business.

Just a couple of little housekeeping points for you. We won't be stopping for a break this morning but we will be running straight through 'til about midday when we'll be serving a lunch outside but there will be tea and coffee available throughout the morning if you feel the need for a quick cuppa.

We also have people listening in on the phone and also there is a live webcast so I'd like to welcome anyone who is online and on the phones too.

For the afternoon a slight change to what we normally do. We've got a series of breakout sessions running. You have colour coded badges, some green, some blue, I think, to ensure that we have relatively equal sized screens running through before breakout sessions that we have going on this afternoon. So that's the reason for the colour. So from about 12.30 we'll kick off the breakout sessions and then run through those through the early part of the afternoon.

That's all from me, you're not here for me today, so I'll hand over to David. Thank you.

**David THODEY:** Thanks Ben. Morning everybody and thanks for coming, it's great to see you. We're going to try a little bit different today. Over the years it's sort of been a bit of a production these investor days and while there's a lot of information to get through we wanted to try and make it a little bit more interactive. Now there's always, we want to present material to you and that'll take a couple of hours. But when we get to Q&A and then the breakout sessions this afternoon I hope will give you a bit of an opportunity to get into more detail about some of the areas.

So we're just sort of changing it up a little bit and even the smaller room. Sometimes I've felt like we were more at another AGM, which as much as I enjoy AGMs, it's probably better when we're talking like this just to make it a little bit more informal.

So that's very much what we're doing today. The other key thing is that we are going to give, it's a business overview, a business update. I mean our strategy's pretty set in terms of what we're doing. Obviously within a company the size of Telstra there's lots of different things going on in each part of the business and what we want to try and do is give you a bit of colour on that.

But let me just give you really the big objectives for the day and what we're trying to get to you and share with you. I personally want to share with you my perspectives on the industry because the industry is going through a lot of change and in that change creates opportunity and challenges so I'm going to try and stay at that level. And within the team and I've got Robert, John and Gordon Ballantyne, are going to get a little bit more into what we're doing in the different parts of the business so you can get a sense of that and then later on we'll get into the breakout sessions.

So that's really the key thing. The most important thing we're doing today is to confirm guidance and, you know, that's probably quite a big thing in the markets today as you look at what's going on. Now there is some changes within that guidance, there's some underlying parts of the business that are going a little bit stronger than we anticipated coming into the year. There's some parts of the business that are not going quite as we had expected and we're going to give you a little bit of colour on that as we go through the day.

I'm not going to be talking a lot about NBN. John's going to give you an update. As you know we're through the AGM and thank you for your support on that, we really appreciate it, we think that that was a really good decision. It gives us, certainly going forward, but we've still got to get through the ACCC and get this SSU done. Now John will give you a little bit of colour on what's going on that but we're very intent on getting that done as quickly as possible.

But remember we're committing to equivalence and transparency, that's all we're doing, and

we just want to get regulatory certainty through this period so that we know exactly where we stand. But John will take you through that later on.

So they are the four things, you know, perspective on the industry, progress on the strategy and the focus areas. Now in terms of the structure I'm up first, then John, then we're going to get Robert to talk about how we're going around this project. Now remember what it's all about, and Robert will give you more detail, there's a lot in a company like Telstra. It's just day to day making sure the business works well.

There's so much lost opportunity, cost that you incur because of bad process, so simplifying the business, an enormous task and Robert's been leading that project, which involves the whole of the company. But we are making progress and so Robert's going to unpick that a bit as we go through the morning.

And then we've got Gordon to talk about our new chief customer officer, which is very dear to my heart. We've bought together all those going to market groups and Gordon's going to take you through how that's going, what we're trying to do to get that, you know, that group really customer focused. So that's the structure of the morning.

Now in the breakout sessions, and this is a good opportunity to see some of the key executives within the company, so the NAS portfolio, now Network Applications & Services, I know some of you look at me sideways and say what the, what are you doing there, what's this all about. This is really important because it's in the enterprise in the business segment and also a little bit in the consumer area, Cloud computing and how you actually access applications and services is very important.

So Brendan Riley is going to take you through that and I've got Paul McManus and Philip Jones. Philip Jones is the Product Executive. Paul runs that part of the business so you'll get a bit of a view of that.

The connected home is the age old, you know, I suppose it's the great ideal around what the home will look like in the future, how do we position in an NBN world around that. So we've got Hugh Bradlow, who's our Chief Technology Officer and also he runs innovation and

technology innovation very important in terms of what we've got to do in applying technology to real opportunity. So Hugh's going to take you through that and I think you should find that pretty interesting. So it's a little bit of convergence, how you manage the home, how do we service the home going forward. It's such a big part of our business.

Mobility a key product portfolio for us and mobility's going very strongly. So we've got both Warwick Bray, who's the head of Mobility and also Mike Wright, who's the Chief Engineer really who builds out the network. As you know we rolled out LTE and LTE's going very well. We've got LTE in Hong Kong and here in Australia.

Now a little, for those who are technically minded I was up in Asia just this week and I was speaking at a conference. We did the first demonstration of LTE roaming. Now one of the big things when you roam on these dongles is that when you're in Hong Kong the data's going back and forth and back and forth and we've found a whole new way of managing data roaming we think is going to be very exciting. So world first, it was actually really good. Got a lot of excitement now. It's very technical so I don't want to go too far but Mike will take you through that.

And then lastly, branding. It's great to have Mark Buckman who's here, so Mark's been doing a lot of work. You've seen the multi-colours of Telstra, a whole new Telstra. You know, I think it's been very relevant, very exciting. It's really, you know, we can see the results even coming through just a couple of months after the launch and it's feeling good.

Now the thing about branding though is it's got to reflect what the true culture of the company is, so you can't go out and pretend to be something you're not, so it's got to be authentic and Mark will take you through that.

So that's how we're going to structure the day, so hopefully it's going to be useful and we'll look forward to getting your feedback later on.

Okay so let me move into what I'm going to talk about. I want to talk firstly about what I see is going on in the industry because there's some really big changes. Sometimes we talk about little bits of the industry and when you put it all together and you know I've been in the IT

industry what, for 30 odd years now, and this industry's very good for saying we're in a new era and things are going to change, it's going to be all better and great. But there are many things happening that I think are really worth just spending some time on because it really influences where you go as a company. And for us we need to be really on top of that so we can take advantages of those trends.

So I'm going to talk a bit about then talk about some of the things we've already done, just as a quick recap, then we'll go back and talk a little bit about strategy and then I'll just pick up on three areas, NAS, media and also how we're going in Asia. Talk a little bit about that because I know you often say what are you doing in Asia, you're about to go and spend a lot of money in Asia. No we're not but we are and have been in Asia for a long time and just what we're doing there. And then I'll come back and talk at the end just a little bit about capital management. Now as we've said before capital management, we're going to talk, we present our position early in the New Year, so I'm not going to announce anything today but I am going to talk about some of the considerations we've got. So that's the structure what I'm going to go through.

Okay so let's talk about this industry. I want to go through 10 things here that I think are worth just thinking about and each one of them have a significant impact on what our strategy will be going forward.

So firstly this thing called digital content. I mean I am continually amazed about how much has gone digital. I mean the other day, a great example, I was listening to ABC radio and I wanted to get a replay of that interview. Where did I go? I went to the internet. And suddenly you realise that everything on radio is being digitised. Everything in terms of free to air as well is now going digital. Every bit of content has suddenly become digital. And so this incredible world of content.

I mean even every photograph is now digital. And so it's all available online and this is just exponential. Every bit of video, you take a video today it's digital and then you can put it on YouTube and put it up. That is putting incredible pressure or an opportunity on how you access it.

So when we say to you the growth of traffic on the network is so big it's because everything's gone digital. And I don't think we quite, you know, really realise how big that is. That's why these companies that are building big storage farms are so big. You go and see like Google or Amazon, they're absolutely acres and acres and acres of actual storage.

Really big significant change and it's going to continue and grow in the future. You know so you put that together with the second one which is this whole network growth. I mean this is not new. Remember there's a book written by Negroponte who talked about the network effect, about every additional node on the network creates this whole great communication of people communicating with each other.

I'll talk about how communication has changed but this is really important. Today, actually those numbers are not quite right. By the end of 2010 there'll be six billion mobile users in the world. Six billion. The actual number by 2020 may be closer to 30, it may be not quite as much as 50 but by 2030 a trillion.

Now why is that important? Well you've got all this machine to machine stuff that's happening so your cars will be wirelessly connected. Your appliances in the home will be wirelessly connected. And 2020's not very far away so we've got to look at how we're building networks to cater for that in the future. And this is a big change 'cause your network design changes enormously. Your ARPUs will change enormously because it'll be a very different model. So if you've got every metre connected wirelessly you're not going to be getting \$50 ARPUs, you're going to be getting sort of what, maybe two, three dollar ARPUs. But it's a very small amount of data getting on the network.

So we've got to look at the whole network design as we go forward in terms of what we will do to cater for that. So this nodal effect is very important and it's the same in fixed as well but not quite as dramatic. Fixed networks are growing as well.

Then you talk about well how are people are communicating. I mean you'll be, I'm sure you know that emails are still the number one way we communicate even though social networking's taken off. But still look at that, enormous number of emails really, probably half of them are spam but it's still an incredible amount.

SMS, while the model on SMS has changed in terms of pricing, still an enormous amount of communication by SMS. And then you look at how tweets are taking off. So we've got to look at network design in terms of how people communicate and what we do to add value in that ecosystem going forward.

So this is very important, five times growth in communication, in interactions we call them. And I've not even added there the number of people going to the web each day. And of course that's where we go each day and that's not even reflected there so if you added that it would probably be nearly 10 times increased in just how you're getting information. And these things fundamentally influence how we, you know, run the business.

The other key thing is, you know, web search. I mean what's Google now? I think Google's a billion searches a day now. A billion. The other billion is sort of specialised sites and sites like Bing. But search has become the sort of toll gate into the internet. Imagine trying to navigate. I mean anyone remember Alta Vista? Anyone remember Alta Vista? It's amazing how it's changed isn't it? And so we have had to change where we spend time.

You know Bruce spends a lot of time with Google. We do a lot with Google now with Android. Where does Google fit into our ecosystem going forward? Do we partner with them? Are they a competitor? You know you hear a lot about over the top players in our industry taking value away from the operator. So how do we find a place there that can add value and differentiate ourselves in the future?

This is a very important thing for us and the network still remains absolutely key. I'll come back and talk a bit about that because there's a lot of different thinking about where the network really plays in terms of this whole new content world.

The other key thing that I think is very important. You know often when I talk about customer service and satisfaction sometimes it feels like, you know, it's sort of like the latest Harvard review, not that customer satisfaction is anything new, but we don't do it to be benevolent. It is this whole shift in power in the market. The power of the consumer with social networking, about how people buy, about how that influence is a very, very important thing in terms of what we are doing as a company.



We have to. We have no option but to become a very strong marketing services and sales company because unless you are able to segment the market, really define and differentiate yourselves at that end, you will not be successful.

In Hong Kong, if you've ever been there, CSL runs different retail outlets for different segments of the market. We've got 1010 in an outlet called 12free but they're very segmented. One's very high end, it's like walking into Prada, though I'm not sure we all want to walk into Prada but in Hong Kong it works. But I'm not about to say we're going to bring it here to Australia.

But it's a very different retail experience. So we as a company have got to be able to respond to that changing consumer behaviour as well as people go more and more online. So that whole model has got to change in terms of how we go to market.

So the me generation consumerist king or queen is really at a very important part of the shift. And there's been some very interesting articles written about the power of the consumer going forward. So therefore service and satisfaction is not an optional thing for us, we must get it right even though it takes time to do.

The other key thing there is this whole change in devices. A few statistics here. I don't know if you read The Economist about four weeks ago, there was this whole article about the move from personal computers to personalised devices. Anyone read that? Really fascinating article.

Last year there were 400 million PCs sold in the world. Do you know how many Smartphones were sold? Half a billion. And suddenly there's been this inflection point. There are more Smartphones sold than PCs. And by the way that half billion does include tablets as well.

Now, so what's happening? Well this whole user interface, I mean I think Apple's done this industry an incredible service in terms of creating this wonderful experience in terms of how you get access to information. I mean if I asked, I don't know how many iPads are here today but I mean you can just see the change of behaviour in use of iPads. And the Smartphones,

you know, that Apple have bought the whole, every time I go to a screen now I put my finger up to it and that's an incredible change of behaviour.

But the actual computing power in an iPad or these new Android devices is more than in many PCs. So you've seen this whole move from personal computing to personalised devices. So then what's the impact of that in the enterprise market because we've traditionally in enterprise, when you come to work for a company what do you get? You get, maybe if you're good enough you get a phone and you're given a PC. That world's changed because people will turn up and you'll have your own iPhone or you'll have your Android device and you'll say, hey integrate into my life, not into your life.

So that's a big change in terms of behaviour and what this technology is doing. So this whole shift in devices and user interfaces and we see no change of that going forward.

Now, there are some questions there about where value is in the chain. And, you know, Apple has extracted enormous value out of this model but we've got to find ways that we can really benefit from this. What was the numbers I saw the other day? In the devices market Apple has something like 15% of all devices shipped worldwide but represents about 50% of the profit of the devices market. Quite incredible. Quite incredible.

So what's the operator's role in that? Where do we play? How do we differentiate, you know, our experience on those devices? And how do we remain relevant in that world is very important.

Bandwidth I think is, you know, something that you're aware of. I mean the demand as we rolled out LTE, I mean it was just incredible, people used that product, you know, at 42 megabits down, 20 megabits per second up. That's an incredible experience when you compare it to what's available on fixed today. And your mobile. Then how does that play into the wifi world? So the demand for bandwidth, I have no hesitation in saying that that will continue to grow and as more and more applications.

When we were in Hong Kong I was seeing 3D TV on a wireless network. Now, by the way, I'm not a great supporter of 3D TV because I'm not sure that it actually really changes. Some

people like it. But the very fact you have such a high quality experience on a big resolution screen over a wireless network changes the dynamics. And then we were demonstrating to someone in Alice Springs in high def video talking into someone in China and then you suddenly see the communication capability and I quickly said well how do I make money out of it. But the experience, once you get that demand right, it's actually incredible what you see as an opportunity going forward. So the demand for bandwidth is very high.

Asia, look I will say that it's, you know, continuing to grow enormously and there's still a lot of growth we think there. And therefore for a company like Telstra where do we play? What do we do? I mean are we an ANZ who's saying we're going to go and, you know, create our future in Asia. No we're not. But we do have this long term presence in Asia that OTC had. I mean OTC was there for 65 years.

Well, you know, I don't know if you realise, I'll show you later on, we have more cable in Asia than any other operator. We have more points of presence than any other operator in Asia today. So if you compare it to AT&T, NTT, KDDI, we have more.

Now, so what do we do with that? That was why bringing Reach back into the business was so important. So I think a great opportunity there but you've got to be careful. I mean don't, let me say it again, you know, that does not mean we're about to go and spend a lot of money in Asia, that's not what I'm saying. I just want to be clear about that. But it does mean we've got great assets there.

Then this whole thing around Cloud and applications. I mean we what? On the iPhone, if I got the numbers right, half a million, 500 hundred thousand apps on the iPhone. About what? 280 thousand on Android. But that's just the beginning. You see what the experience that's different an app on an iPad or an iPhone or an Android? Well it's sort of this sort of mini app that you can get access to. And then you say well if that's really a Cloud based application because you can be anywhere in the world and get access to it. So what happens in the enterprise market going forward? Are you still going to buy big SAP systems? Are you still going to buy big or are you going to buy more miniaturised little applications that people will use in different ways.

Now that's not to say that every enterprise is going to do that but these applications are very different. Why is Cloud so important? Well Cloud's nothing new really. I mean anyone who's been in this industry, sharing of infrastructure, I mean within a corporation, remember you used to buy big computers and you'd run many applications for HR and, you know, finance. You used to be all separate and then they all came one.

All the Cloud computing is that that capability goes outside the organisation and is shared by many corporations, which becomes a utility model, which is very sensible and very, you know, very logical. And for a big corporation or a small business that means they don't have to put up capital to buy the equipment, they share it, it's on demand when they need it.

So the business model is very good. Are there technical issues around it in terms of pricing and security and where the data's held? Yes. But incredible opportunity for a telco because that's what we've done for 100 years, which is build infrastructure once and then share it, so it's not a big leap for us at all. Now does it mean that it's going to suddenly change the world tomorrow? No. But it does mean that it's a very relevant business model for us going forward. So Cloud and apps.

And then the last area is just this video area. I mean I can't remember the exact numbers but in the US Netflix represents 40% of all the content on networks in the US. Forty per cent. Here video would be getting up to probably 30 or 40% of what we carry every day.

So video is a very different experience that people have and it's something that we really need to work on because carrying things like IPTV, which is a video stream, is a very different network architecture and if you don't get a good experience then it means that, you know, you're not going to get, you know, the revenues flowing through.

So why do I talk about all this? Well, you see I go to presentations and people talk about one area. You know they'll talk about digitisation of content then they'll jump to media. Or they'll talk about, you know, the incredible growth in connectivity and then they go off and talk about mobile networks. When you put all those 10 together you see there's quite a fundamental change going on in the industry that creates tremendous opportunity. And then you've got to say well where do you monetise that and what do you do.

So that's just a little bit of the context of what we're trying to do within Telstra. So let me just quickly go through what we've done in the last 12 months because we have done a lot and it has been sort of driven by a lot of these areas. So firstly, you know, building a sales service and marketing capability has been really important. That's why we put Gordon in place for the Chief Customer Officer. That's why we did the new brand launch because we've got to become relevant to a whole new generation of customers that use. Chief Marketing Officer with Mark coming in because we've got to grow that area.

And you probably missed, we've actually bought all marketing together under Mark. In the company we used to have marketing groups and enterprise and SME and product, it was all over the place, and now we've got one marketing group. That sounds an easy thing to say, it's been a, well Mark's smiling at me so you know what it's like, and then this incredible focus on customer satisfaction.

Gordon will talk to you about this very important thing about changing the way customers talk about Telstra. You know, I mean I'm sure you talk about us too and what's the common story that often you get? Well everyone's got a story about Telstra. And how do you change that story about Telstra to be one of, gee, you know, I had experience with Telstra and it was great? How do we change it? And not that it's, I tell you it's very, very powerful for an incumbent if you can do it. I don't know many, if any, telcos in the world that have done it. And it's about having customers saying, that's a great company, why don't you try them.

So that's what we're trying to do is really create advocates within our customer base. But before you do that you've got to have a staff that are advocates for you because if your staff aren't there all the work you do and all the words I use in terms of talking about creating advocates of customers is just a waste of hot air really. Because unless your staff believe in what you're doing.

And so we talk about cultural change and I know it's sort of one of the softer arts of management but it is really very, very important for this company and if we don't get it right, this company won't be flexible, it won't be able to really drive and take advantage of these incredible opportunities that we see in the future. So the cultural change inside Telstra, even

though I know you look for the numbers, this is really very, very important for us as we go forward.

So that's that. The second area that we talk about is this core network capability. We are a network company and we're very proud of it and the network does make a difference. So driving out from that incredible engineering, one of the things that people talk about Telstra whenever I go out into the market is they talk about engineering excellence of Telstra. Right across Asia and the world. And that's why we've been one of the first to ride LTE, the HFC network, a hundred megabits per second in Melbourne.

Now we've got to monetise it and drive it but this, you know, going to IP version 6, these core network elements are very, very important and that's why we still spend what, a couple of billion dollars a year, probably a billion in terms of just building out this network.

Now, you know, we're already at 2.1, 2.2 million square kilometres on the wireless network. We are going to continue to build that out, you know, put in-building coverage better, denser, because we've got to keep our dominance in that area. Very, very important for our future. And then really differentiating on the IP network as well. So that will be a continuing area that we do.

NAS and Cloud, I just want to quickly touch on that because I talked about it. We do have a dedicated business unit now for network apps and services separated out and one of the key things in NAS is running it profitably because you can sign up for these big contracts and lose a lot of money and very important we do that. We've made the Cloud investment that we are rolling out now and we announced six months ago, so that's a big part of what we're doing. We've got the innovation team I spoke about before. And then Deena's set up this application ventures group.

Now this is again about getting in early the applications of the future and then being able to relate them to the carriage as we go forward. And it's been fascinating, Deena's here and I think we'll be talking later on, yes, but, you know, the incredible activity in this market.

Now we're not a venture capitalist, be careful, that's not what we're doing, but what we're

trying to do is get in early, put them in the Cloud and drive leadership in a segment of the market. And we think there's some good opportunities as we go forward. And then, of course, the T suite which has been, we were early into the applications or in the Cloud.

New business model, we talked about project new and simplification and the productivity. Productivity, every day taking cost out, managing people, doing it better, is just part and parcel of a telco's life at the moment and we'll be fine. Talked about product innovation. We must continue that with digital business and verticalisation, so we've done a lot this year.

Digital media, IPTV's going very well. You know, it's an interesting model, IPTV. It's all about content, how you distribute it but now what, 250,000 T Boxes or thereabouts in the market. Real dominance. We think that's going to be very important as we go forward, getting rich content, that's why we think that model will play a very important role. Foxtel, very important. Obviously the Austar thing is still with the ACCC.

And then this morning, which I'll come back and talk about, is we announced the establishment of a media business unit. And I'll come and talk about that later on. I think it's another step along the way of what we need to do to build real capability in the media portfolio. Then just lastly, Asia. I talked the Reach integration that's going very well. We're still working in China about what we need to do in China to sort out some of those assets there. Some are good, some are not so good, but in the bigger scheme of things reasonably small.

So you can see a lot has changed and I just wanted to go back 'cause that relates directly back to the trends you're seeing in the industry.

Okay so what's that all mean? Well, incredible demand in the network. The growth of the network continues to be, you know, quite astounding and that means that people are using our services more, they're downloading more and they're doing a tremendous amount on the network. So the big thing for us is, well, how do you continue to really take advantage of that?

So our strategy remains absolutely unchanged. You know, it is still about customer service

and satisfaction. Having a strong customer growth, especially in times of change is a strategic imperative. If you lose your customer base you can't sell them anything more. So looking after our customers, keeping churn low and actually investing for customers is very important.

Now of course you've got to do that affordably so when you're talking about acquisition costs you've got to do that in ways that drive real value. Simplifying the business will continue to be what we are going to do and of course we've really only just begun that. As I said, Robert will take you through that but we've got a lot more work to do in that area and we think after that the cost will drop out and then, of course, those growth areas.

And then lastly, I mean for us, is we've got to get ready for the NBN world. Let me just spend a few moments on this because this is important. In the explanatory memorandum you would have seen quite a bit of, you know, discussion about well what does the NBN mean for Telstra. You know in one sense we've always known, and even you go back to Frank Bount's era, that the copper was going to die in some way or form.

Now die was probably not a word we used but it was sort of we knew that that part of the business would go away. So what we've got is an acceleration of that and also we are getting some compensation for that as we migrate. But where the real battle becomes is the intelligence in the network and how you manage those millions of customers every day and deliver a really good experience.

So in telco speak that becomes layers 3, 4 and 5, it's about how you manage the devices, how you manage the experience, how you do activation. So just think about the NBN experience for a moment. You know the fibre comes down the street and then you've got what, every home in that street's going to have to make a decision. And what's the general experience we've had about transitions from technologies? Well Stuart can talk about the CDMA migration. Customers do not like to change. I tell you no matter how many times you send them a note, how many times you encourage them to do it, unless they've got an immediate need.

So the experience of actually transitioning from copper to fibre is going to be very, very



important in terms of how you go forward, so we're spending a lot of time on that. How you build out the product portfolio, the tariff structures will be very important and we've not actually put anything out on tariff structures 'cause we've not completed the wholesale agreement with NBN Co. And because there's a lot of issues in there. Remember we have to provide, you know, customer service guarantees under, you know, the Telco Act, is NBN co going to do that? What are we going to do? What's the service levels et cetera? So we're going through bit by bit in terms of that.

But we're doing a lot of work in that and then how we build out applications and content on that core fibre. Now this is over, you know, a three to four year period, which it will really ramp up, but this is going to take a lot of work as we go forward but we're doing a lot at the moment in terms of that. So that's in terms of the NBN world.

So let me just now turn, so that's your industry trends, focus, NBN. Let me just quickly talk about these three focus areas and I want to give you a little bit of colour on how we're going 'cause we've got, you know, some changes in the mix of the revenues as we go forward but there's some trends I just want to talk about.

So let's just talk about NAS. Now you've got a separate section with Brendan this afternoon and Paul and Philip but this is a very important portfolio. This is interesting. It is all about the Cloud level but you need within a company like Telstra the focus and so this group would have what, a couple of thousand people now running about what, 1.1 billion, 1.3 billion of revenue and it's all about capability. And you really need to specify that but this has been growing, you know, very well. It grew at 11%. The actual pipeline is enormous and this is both enterprise and small and medium business and it gives you an ability to differentiate.

The thing on the left there is just what the guys will talk to later on and I'm not going to go through that. And we've got a very strong customer base. It's interesting on Cloud. Now we have a great, you know, pipeline of customers coming through now who are wanting to do it. Now it's not they're moving all their internal computing to Cloud but they are firstly trying web services and then they're trying, there may be email or it's test dev, so they're taking bits of their computing put it into a shared environment, getting a feel for it. And so our intent is to

really pick up on that opportunity as we go forward. So that part of the business is going well.

Then, of course, you know, building value in Asia and I talked a bit about this but our strategy in Asia is very clear. It is to leverage off what we've already got, not to go and do other stuff. So I talked about the IP network, I mean it is one of the best IP networks throughout Asia. We have all those wonderful cables that are there and I'm going to show you, well actually I'll show you a picture because sometimes you don't realise.

That picture there is the picture of the largest satellite teleport station in the world and of which 50% of those, you know, what are they called, dishes are owned by Telstra. Did you know that? I mean, well I just went out there. It is a funny story 'cause to get there, when the British owned this, there's all these military placements up here and actually to get there you've got to go through China national property. So you've got the red guards there, you go through and then you go to the centre.

But that's an incredible capability that we have. And we have satellite capacity that covers, I think, two-thirds of the world and we're doing quite a few bits of business in that area. These are assets that we own today as a legacy of OTC. And so how do you build that up? So we think as the world becomes more global, there'll be Cloud computing opportunities, big enterprising saying hey, we don't want to come, when we come to Asia we just want someone to like manage all that communications infrastructure throughout Asia and we have all the capability.

Now, it's been hidden away in the joint venture in Reach for the last 10 years, so just bring it out and getting a bit of focus on it has been very important to us. That's number 1. So it's just leveraging what we've got today.

Secondly is the CSL asset and we do think that that's going very well. It continues to have a very strong result. Now, it's a tough market in Hong Kong. Would you say that's probably the best market to go to? Probably not, if you were starting from scratch but we're doing very well in CSL. And I reviewed the business, I'm very pleased with how they're going, they've taken the momentum from last year into this year. And the LTE rollout, they were the first mobile operator to rollout LTE in the world, that was a year ago. They were chosen as the

mobile operator of the year and the best Asian brand for mobiles last year. So it's a little bit of a gem over there. Now we've got to make sure that we really manage that. A lot of their business has been from roaming from China into Hong Kong and that whole world's changing and we've got to keep ahead of that. But there's some really good things happening within CSL.

So that's it and then of course the China digital media assets that we inherited has, you know, we've got some sorting out to do there. You know we sold SouFun. We've got still some more work to do because some of them are working well, some aren't working so well and it's tough in China. You know it's not straightforward. You've got to put a lot of time into and we've got to be very careful about what we do.

So that's sort of the general sense of what we're doing in Asia but it's very focused, got a dedicated team there, just trying to drive value for shareholders as we go forward.

So then let me just start talking about this new media business which I announced this morning. I mean as you know we've got this wonderful number 1 position in IPTV already and that's been going very well. Secondly, you know, we're really ramping up the chargeable model, you know, the Netflix model. Now, Netflix is very different to us but just this whole thing about video on demand, it's going very well, we've got 33 hundred movie titles now. And, you know, you'd never believe it but there's been 2.4 million movies already downloaded and every month it grows and grows and grows. And so this whole usage of not going to get the DVD from Blockbuster, doing it online, is a very strong value proposition if you can get it right.

And as I did announce this morning we've announced the consolidation of our media assets into a single division. So what it will do is bring all the media assets into one group. Let me just go to the next, that chart there. So now we'll have Sensis, Bigpond and Foxtel all in this one group. Now, so why are we doing that? Well, we think that we need all that capability together.

I mean you have often asked me questions, said well what's going on here, it's been very hard to get a feel for what the media division has done. It turns over \$4 billion, it's got 4,000

people in it, it's a big organisation. So this'll give the clarity that you need to see how that business is going.

Now, there's different winds blowing in this business. I mean Sensis you know we talked about moving from print to digital is a big change and we're obviously, you know, experiencing some headwinds there and John and I are going to talk a little bit about that. But also remember that media in telco is not the same as Fairfax or News because our media strategy is around the network and how you build network differentiation and how you use that to move it forward. Now there's many different things. So if you think about online digital media it's about what the experience is and that's why we're spending a lot of time building our different video distribution networks.

So we're also announcing that we'll be over the next four to five years investing about \$100 million into building our video distribution media capability, which is about how you get video. So if you get a movie that's sitting here in Sydney, you've got to get it out to Karratha, how do you stage that content across? How do you really build that experience that is differentiated to the consumer when they come to us?

So having all those bits and pieces together I think will be an exciting opportunity.

But I do need to talk about Sensis for a moment because we went into this year with some plans and the plans aren't quite working out the way we had anticipated because Sensis has just finished the metro campaign. So we've got the metro which finished what, just about a month and a half ago, so we've had our first real look at how the transition is going. We've done a lot of work on that and we're now just getting into the non-metro area.

So there's some real changes. Now you know in the retail market this transition timeline is going very, very quickly and in fact it's going faster in Sensis than we had anticipated. So remember our strategy was to give a print and digital experience in what we call the value pack and we wanted our customers to pick up on that and then move through. But what we're seeing is quite a rapid transition.

So let me just give you a few headlines then. John's got a specific chart to take you through

the financials in a moment. So based from what we originally had anticipated it's satisfactory but the actual take-up of the digital product is good but not quite where we wanted it to be. I mean in terms of the products themselves they like it.

So we're getting revenues that are lower than expected because we're not getting the sales completion rates. It's actually quite a difficult sale with a small and medium business operator and you're having to spend more time and then they're saying hey we're going to move from print to online, taking a little bit less print and then they're also taking the digital product but not quite getting the revenues that we quite expected going through that.

The rate of decline of print therefore is a little bit faster than we had expected. It's risen significantly really over the last six months. And therefore it's putting pressure on Sensis, both at the cost end and the revenue end, because as they take the product we've got to build the digital product and then get it online.

So John's going to take you through that but the bottom line is that the revenue percentage declines is going to be probably in the high teens, for the full year that is, and it's mostly driven by the print directory business and the margin compression. But thankfully the business is going so strongly on other areas we're able to retain guidance. So John's got a chart on that and he'll take you through that.

But I think by putting the product portfolio together we'll be able to really see how this media business will really go forward in the future but we do need to get through this transition at Sensis and Bruce and the team are working diligently on that. That's why you saw us taking some costs out the other day, so that we can balance this thing as we go forward. So that's where we're at with that. Okay.

Let me go to the second to last chart and then I'll pass to John. So through this transition managing cash is going to be really important and having a clear cash management strategy for you as investors is also important. So while I'm making no announcements today I just wanted to give you a little bit of some thinking that we're just sort of working through with the Board at the moment.

So firstly dividends. Catherine announced the two year commitment to fully franked dividends at 28 cents and that's very important as we go through this transition that there's real confidence about the dividend coming from the company.

Debt. As you know we've still got that A rating. John did a great job in Europe of getting, you know, some bonds away in a very turbulent market but John, you know, came back and he can probably talk better about it. You know the view of Telstra was very strong in terms of just how strong the company is. But obviously paying down debt probably not a high priority at the moment but that's something that we look at, whether there's any value in that, depending on what the global markets are doing at any one time but we have to factor that in.

Capital returns. Obviously we are considering that. Is that something we should do? If so, how would you do it? Would you do it once off or over a number of years? And we're looking at all those options and hope we can give you a bit of a colour on that in the New Year.

And then of course investments. I mean we already, and it's very important, we already invest billions of dollars into the business every year. Are we going to do inorganic M&A stuff? Well we want to continue to buy capability that can be add-ons, bolt-ons to the business. We've got to do that. A great example of that was IVision last year, which we did around videoconferencing. Worked very well, first six months it's integrated well, it was what, \$60 million or thereabouts. It was a good bolt-on acquisition because that allows us to build our capability.

But I want to be clear. Our investment criteria are very important when you look at this and I know when you start investments they always sound good but we've got to be very disciplined, so remember what they are. EPS accretive within two years, we say return on investment capital is expected to equal Telstra's WACC in year 3. Thirdly, it must be better, a better use of cash than a buyback of our comparable size. So we've put the buy back within the criteria there. And, of course, cash flow positive within year 2.

So they are the criteria we're going to use in terms of any investment going forward. Now unless there's something absolutely critically important in terms of strategy they are the

criteria that we use today. So we're going to discuss capital management going forward and we'll look at what's right. If we think there's something else that's really good for the business we'll bring it back and talk to you about it but that's where we're at.

Okay so let me just summarise and then get John up here. So firstly, our strategies are working. We think we're doing the right things, we've got to stay the course, not get deviated trying to do too much and do the basics right.

We've got a lot of work underway to get ready for NBN and we will be NBN ready but you've got to get a lot of systems right, interfacing NBN and we will be ready.

And we are focusing on building out differentiation. Differentiation across a large number of areas and getting greater focus in the business as we go forward because we need to have a portfolio of assets 'cause assets move. And we need to mitigate risk so we've got, if one business is slightly off we've got other business that will come through.

And I'm pleased to be able to confirm guidance for the full year. So let me now turn over to John. I think this is the last time, John, that I turn over to you and I'll be back later on to discuss, take questions and answers. So, John, over to you.

**John STANHOPE:** Thank you David and good morning everyone and it is great to be here today. It is as David said my final investor day presentation as CFO of Telstra and because it is I thought I'd go for three hours. No I'm only kidding. And we could have fun by reminiscing about sprinklers going off and hail storms down at shipping terminals and so on. But no I am going to be quite brief. This is a financial update. The purpose of the day mainly is around our business strategy but there are some important things to tell you today.

There's three items really that I want to cover off with you. Firstly, I'm going to provide you with an update on Telstra's participation in the NBN and the progress of the outstanding conditions precedent, or the only one that's still outstanding. Part of the update will also include a look at how Telstra will be reporting the revenue and the physicals attached to our participation in the NBN. So that will set the scene for you as to what you will see in the

future as we go forward into an NBN world.

Secondly I want to highlight the growing importance of machine to machine, or M2M, in our mobiles portfolio. Today M2M applications are typically business to business in nature and enable increased business productivity or management of assets like vending machines and vehicle fleets and so on.

And then lastly I want to take a look at our fiscal year 12 guidance and as David has said we are reaffirming our guidance today. But I want to talk you through as David has suggested some changes in the mix that we are seeing at the moment and the swing factors between the first and the second halves.

So let me just get into NBN. Our focus is on closing out the conditions precedent. We announced in September that Telstra had received a favourable ruling from the ATO that accords with our expectations. This ruling of course will become binding once all other conditions precedents are satisfied or waived, is a natural course of action of course. The ATO wants the rest to be done first otherwise it's an irrelevant ruling. And as you know last month at the AGM 99.45% of votes registered approved Telstra's participation in the NBN.

The critical remaining condition precedent to the NBN transaction is ACCC acceptance of our structural separation undertaking and of course the associated approval of the migration plan. We lodged our SSU with the ACCC on the 29th of July as you all know and since then we have been engaged and continue to be engaged in constructive discussions with the ACCC and the industry for that matter, we've had quite a lot of discussion with the industry. That consultation or those constructive discussions are actually live and active yesterday and today.

The ACCC is conducting an industry consultation process as it considers whether to accept the SSU and as part of that process the ACCC held an industry forum on the 4th of November which of course we attended. And that was fundamentally to help inform the whole discussion between industry regulators and ourselves and we provided a discussion paper to assist that process as well and it described the possible approaches to address the concerns raised by the ACCC and the industry.



In particular we sought to present a potential solution to the issue of an overarching commitment to equivalence that does not require a material change to the transaction. Now just a little bit, so what is that? There were about three items that the ACCC were concerned about. One was really a technicality that was easily resolved. One was to do with an element in the NBN definitive agreements. But the one of most concern to the ACCC and the industry was this so called overarching commitment to equivalence. And fundamentally what the discussion's all around is yes you've said you'll do some specific things to show that you're providing equivalent price and services and so on but we want to be able, if it's not working we want a way to be able to step in and change things.

And of course, you know, materiality of change and what all that means has been the point of lots of discussion and that's ongoing discussion, as I said, as recently as yesterday and continuing today. So that's what it's about. It's the rules around equivalence and our overarching commitment are set down 'cause they've got to last for 10 years and that's why they are so important.

Following that forum that we have, as I've just said, we have had further discussions. Those discussions are continuing with the aim to complete this SSU as soon as possible. We continue to believe that none of the issues raised by the ACCC in relation to the SSU are insurmountable and of course I'll repeat what we've said at the AGM, that if there were to be a material change to the proposed transaction as described in the explanatory memorandum then we would ensure that the shareholders have an opportunity to consider it and vote on it.

We still believe that a final decision by the ACCC is achievable before the year end. So to complete the NBN update let's just have a look as I said at how we will externally report the implications or the outcomes of the implementation.

So Telstra intends to report the key physical and financial metrics underpinning the NBN agreements. The industry and Telstra is structurally changing. As this change becomes business as usual, and we have to get used to it being business as usual, it's important that we, and you, look at the NBN arrangements as just that. That they are business as usual and not a standalone sort of transaction.

So some of the metrics on the slide behind me here are already reported by Telstra, such as PSTN access lines, both retail and wholesale, ULL lines and ISDN lines. And as the NBN is built and Telstra decommissions the copper in NBN fibre ready suburbs and towns, the number of PSTN lines, ULL lines and ISDN lines in service will obviously decline and so we'll report those out.

We plan to commence reporting both the total lines disconnected and the number of retail lines we have connected through to the NBN, so you'll be able to see that. And given that the NBN Co is in the very early stages of the roll out of course this is not going to have a large impact of any significance in this fiscal year.

With regard to new revenue lines we plan to disclose both the NBN disconnection revenues and NBN infrastructure access revenues. Just like the accompanying physicals these revenue lines will not see significant activity this fiscal year either. But as the NBN roll out builds momentum you will see significant value coming through these lines given they capture \$9 billion of the \$11 billion in post-tax net present value that Telstra has contracted for in the NBN agreements.

For clarification, infrastructure revenue will be wholesale sales revenue. So you'll see it in the wholesale segment as we report it in our financial highlights. And disconnection revenue will be reported as other income. We're required to classify it that way. The reporting of the disconnection revenue as other income is a slight change to what I said in August when we expected it might be in the other revenue line, so you should just take note of that.

There are some NBN related expenses that we'll be tracking as well. NBN access costs will relate directly to the wholesale charge per line per month that we pay to NBN Co for lines connected to the NBN. And we plan also to disclose copper NBN related remediation costs and copper network maintenance. And of course we expect the latter to decline across the NBN fibre bill project as you would expect.

As the NBN rolls out other important financial drivers may emerge. We will obviously look to report out on these measures as well.

So just moving on from NBN, I want to share with you some insights about another mobile growth engine and we've talked about it a little bit and that is machine to machine or M2M product. And I think we're going to expand our importing so we all can understand a little better what's within the mobile category as this part of the mobile product set if you like expands.

David on a number of occasions has talked about the enormous growth opportunity for Telstra with machine to machine mobility. Let me just be clear here, a service is considered M2M if it is being used to support communications where remote machines are monitored and/or controlled by a central server.

So an example would include SIM cards in trucks or cars to facilitate tracking and locating of fleet for logistic operations and cards in parking meters or vending machines which provide data back to a central location.

Moving forward however we see the emergence of new M2M segments in connected consumer devices. These are consumer solutions like e-readers, personal navigation devices, in-vehicle information and entertainment options.

So at June 2011, so just to give you some clarity of our previous reporting, we had 600,000 machine to machine services generating around \$65 million of revenue. So Telstra's machine to machine revenue and SIOs are currently reported, or were in fiscal year '11, as part of the post-paid handheld and mobile broadband products.

The end to end product has a lower RPU versus traditional mobile products but higher EBITDA margins. Come the half year reporting updates in February it is our intention to separate M2M from post-paid handheld and mobile broadband so you have a much clearer picture.

What we also plan to do is provide a 2011 and a 2010 history of machine to machine so you can respectively change your mobile models to include machine to machine revenue, SIOs and RPUs. You'll have much more clarity of what, as I say, is happening inside the mobile category.

As we've noted on the bottom of the slide here if you can read the bottom of the slide, there are only 100,000 of our 1.7 million domestic net growth last year in mobile services was due to machine to machine SIO growth.

As David alluded to I do want to talk about Sensis and the progress on our digital strategy. As you know in March Sensis launched a three year transition program. As we mentioned at our recent AGM, this is a big transition for Sensis and it is still in its early days. The market shift to digital marketing is occurring faster than we expected and this is having a significant impact on Sensis. Yellow print revenues are declining more than expected and digital demand is also taking longer to monetise than expected. In the last six months Sensis has rolled out its digital suite of products and services. During this roll out we have seen the following trends:

Growth in Sensis' digital customer base, but it is less than we expected.

Good take up of digital products by existing SME customers is taking place. However, with sales completion taking longer than expected. Revenues as a result are below our expectations and it is also limiting our sales to new customers. So just to explain that, because our existing customers want to move to digital faster and the closure of the sale is taking longer the amount of time the sales force has had to deal with new customers has been limited and growth therefore as a result, so growth coming from new customers, has been limited and below our expectations.

Also the rate of decline in yellow print has risen significantly. There is a market dynamic happening here faster than we expected.

On the OPEX side, the initial costs of transitioning have been higher than expected as well. Part of that is, as I mentioned, the length of time to close and fulfil the customers' expectations. So those costs do include additional time invested to educate the customers on digital products and to create their content. These trends will put pressure on Sensis and we currently expect to report, as David said, a high teens revenue decline mostly driven by yellow print. And we do expect some EBITDA margin compression in fiscal year '12 in the Sensis business. As you can imagine much of that revenue does slip down to the EBITDA

line.

Notwithstanding though these trends Australians do continue to rely on Yellow, and just a few stats for you. Yellow print usage at 5.6 million unique users per month, but that is down 13% year on year but still high levels of usage. Yellow digital product usage continues to grow. So mobile visits, so we shouldn't be surprised about this I guess, with all the number of smart phones that are out there, and people are just being more electronic in what they do, we shouldn't be surprised that the market dynamic is changing so fast with the sort of impact that smart phones are having. And therefore mobile visits to Yellow Pages being up 89% to 1.9 million per calendar month is quite incredible.

Yellow Pages app has been downloaded 800,000 times and there were over 400,000 visits per month. Online visits to Yellow is up 3% to 5.4 million per calendar month.

As I said the revenue decline primarily driven by yellow print does have a tendency to slip through to the EBITDA line. So we have accelerated our cost out program at Sensis, with some impact in fiscal year '12 and more benefits from that expected in fiscal year '13. We'll continue to review the Sensis strategy and the Sensis medium term financial outlook.

From experience gained so far, so we've learned a lot from the metro canvasses as David described, but we've got the non-metro canvasses under full swing now and then we will have a full year of sales under this strategy. And adjustments are taking place, adjustments are taking place in terms of marketing. Adjustments are taking place in terms of pricing. And as I've said we are focused on accelerating the cost reduction program at Sensis at the same time.

However, notwithstanding the Sensis trend, we do remain on track for our fiscal year guidance and that's what I'll talk about next.

You can see our guidance on the slide behind me. Outside of Sensis we are seeing better than expected performance from growth businesses such as mobiles. So that momentum as David described, the sales momentum in this area continues to be very strong. We're seeing good growth performance in our network applications and services business and fixed

broadband continues to perform well.

So coupled with the strong mobile profitability, the productivity improvements that Project New is delivering, and you're about to hear from Robert with connection to them, the overall momentum in the business remains good.

Let me remind you, and this is a very important point as well, that our guidance excludes the impact of regulatory price changes and there will be an impact of a couple during the year. So there has been issued a final access determination and there will be some mobile terminating rate changes from the 1st of January 2012. And they have occurred since issuing our guidance. So they will be normalised when we get to the full year and talk about our guidance. But let me give you a flavour for them.

For the full year we will be adjusting for a \$20-30 million final access determination impact at the revenue and EBITDA line. That falls straight through to the EBITDA line. The mobile termination rate impacts will be around \$75 million at the revenue line, but as we've said to you many, many times, we're a net out payer in terms of mobile termination rates. So there will be a slightly positive impact on the EBITDA line from that particular regulatory change, the mobile terminating rate change.

You may recall that last year we had a negative, now getting into the half, you may recall that last year we had negative EBITDA growth in the first half as we invested in our strategic initiatives especially the customer growth, improving the customer satisfaction and simplifying the business. And of course you may recall we also had to contend with the revenue recognition of the Sydney Yellow Pages book moving into the second half from half one in the prior year, which would have been fiscal year '10.

This year the rates of revenue and EBITDA growth across both halves is far smoother and we expect modest revenue growth and slight margin expansion in the first half due to our cost control and a lower contribution from low margin handset revenues.

That sort of concludes the items I wanted to cover. Hopefully you've got clarity about our guidance. As David said, some head winds as we adjust for this digital strategy in Sensis,

offset by strength in the rest of the business and of course the productivity dividend that we're getting from simplifying the business.

So before I finish, thank you for coming today. It's been a pleasure over the years dealing with this investor community and I've enjoyed the interactions immensely and thank you for having me. I'll just hand over to Robert.

**Robert NASON:** Thanks John, a hard act to follow as usual, I'm glad you're leaving actually. Today I'd like to cover progress on our simplification agenda and customer service program. As you might recall we announced at investor day last year Project New and the introduction of this program across the company aimed at achieving a number of objectives. To simplify our business, to improve customer service and to save costs, with a lot of those costs being reflected in the fact that a lot of the costs in the company have been generated by what we call bad volumes. Volumes that were associated with customer complaints, excessive number of calls to our contact centres relating to our existing level of service performance.

So that was a slide from last year's investor day. So was this one. So I do want to sort of remain accountable back to investors for what we said we were going to do. We initiated a program across six major streams of work, there were 27 projects associated with this activity, about 500 staff involved. We invested about \$400 million of capital last year into this program, and there's a further around \$200 million going in this year in terms of capital investment to address both productivity and service outcomes across the company. As John would insist, all within the capital envelope that we have, not expanding that, but within the capital envelope that the company has.

And where are we 16 months in? Progress is about where we thought it would be. I'd say even from my perspective probably slightly ahead of where we thought it would be. We're about, on average, about 50% the way through in my view in terms of implementing the changes that we anticipated to make in the company. Implementation itself is accelerating, and as an example of that October I think was our biggest month of customer service reform

in the company and we implemented about 45 separate individual changes to improve customer service during the month of October. And we've got sort of line of sight for ongoing monthly improvements which sort of started around January/February of this year and they're averaging out somewhere between 20 and 30 changes a month rolling through. And we can see changes rolling through for the balance of this financial year at about that rate.

The program itself has involved the participation of every member of the executive team, so the whole team's engaged in this, they're all doing activities, there's a coordination role centrally, but a lot of the changes are driven by the individual business unit leaders, and it has required careful management. It's quite a challenge to achieve this while we have been aggressively growing customers, investing in new innovation and growth areas of the business, and balancing that off against the cost take out program and the service improvement program at the same time. We set ourselves that task to simultaneously improve service and take costs out, and I think we're largely achieving that, and progress has been good. We've got a way to go to achieving that. So on the slide you'll see there is sort of what, out of the Project New exercise, what level of opportunity did we identify through Project New? And in some of the areas I don't think we got the full way there. And then the grey part of the slide is how far along the line we are towards progressing to achieve the objectives we set ourselves.

In terms of productivity it has to be 100% because you go for an outcome and we're progressing against the first round of change. I'll talk later about further opportunities we see in the business for productivity, and the culture program I'll talk as well, that's probably the one that's lagged some of the others, but that was quite a deliberate decision to do it that way. So just to briefly go through some of those areas.

David talked about the changes he's made to his leadership team and some of the structural changes in terms of addressing the changes that are taking place in the industry. Beyond those sort of changes there has been an enormous amount of work associated with getting the changes implemented and right from processes, operating systems. We've changed the job roles and reporting lines for about 25,000 people over the last 12 months since we last spoke. And we've done changes for each area of the business largely led by the business



unit leader that we've identified to run that area of business. Gordon will talk later about the changes he's made in the front of house, the customer facing business units, but there have been substantial changes across the company. Kate McKenzie now runs the marketing unit and that consolidates all the marketing, product management, pricing in the company as well as the innovation, which was moved from the operations area into the front of house so that we can get a much more market oriented innovation function.

So you make those changes, but then to implement them, basically every process associated with doing a new product, developing a new offer, doing product development changes with that. And we've been doing very intensive work to get those processes operating. We're still going through that, but we're starting to see the results of that, the effective brand launch that occurred a few months ago I think is a good example of the company really getting together and getting very smooth execution and faultless execution in terms of what we're doing.

That's the operating model. Associated with that we've also looked at our external vendors, and that's quite a big component of both the service improvement and the productivity changes that we're looking at. Over the last 12 months we've reduced our total number of vendors that service Telstra by 19%. We anticipate by the time the program's completed we'll reduce vendors by about 33%. So we are looking at deeper, fuller, more productive, more value added relationships with fewer suppliers to derive competitive value for us in the market place. That program is ongoing and we're systematically working through our supplier base. We've addressed most of the top 50 suppliers. We're going into the next layer and the next layer and progressively working through that in each area of the business.

In terms of process and systems improvements, we recognise that processes and systems weren't delivering. We spoke about that last year, that we largely had an end to end process and a systems issue within Telstra that our customers were not happy with, our front line staff were not happy with. It largely centred in the consumer and small business market, because I need to recognise in the enterprise and government market we are the market leader by quite a margin in customer service, and our issue there was to maintain that differential. But our focus has been in the consumer and the small business segment, and we

have looked at every one of our major processes from an end to end perspective. We've got at the issues that have driven the negative perception that we've had in the market, and the bad volumes that I talked about earlier. And again, while we're still a long way from being completed, we're starting to see, as you would expect with the amount of effort, dollars that we're throwing at this, that you'd start to see that in some of your operating performance metrics. Almost universally across the company our operating metrics are substantially improving. And here with call volumes we've had a 28% reduction in call volumes from this stage last year across our contact centres. Now that is a big number when you think we get, this time last year we were getting over 2.5 million calls to our call centre. So a 28% reduction is a lot of calls, a lot of costs improvement and a lot more satisfied customers than we were seeing same time last year.

In terms of first call resolution, we've made changes within the contact centre environment, putting in specialist help desks, IVR enhancements, improvement to knowledge management, driving the fact that when a customer calls they get resolved first time. I think we reported that out last year as a specific target. We've seen a 6% improvement in our first call resolution over the last 12 months, that's tracking according to our expectation and we expect to do better as we develop more system and process enhancements for the balance of this year.

TIO complaints is something that gets public attention and Telstra's name often gets mentioned around the TIO. The TIO reported their annual results in the last couple of weeks and Telstra was the only company in the top 10 major participants in the TIO scheme to reduce complaints during last year. That says something about our competitors as well as something about us. So we were reasonably pleased with that. But we're a long way from where we need to be in TIO complaints. Pleasingly over the last three months we've seen a very dramatic fall in our TIO complaints, so they've reduced by 50% since the 1st of July to the end of September, and we're starting to see it flowing through our business, the impact of some of the process systems, cultural change activity that we're implementing. And customers having a renewed confidence in us, which is what we very strongly wish to have, is that they come to us to resolve their complaint, they don't go to the TIO, it's not a complaints mechanism it should be a dispute resolution service. And we're seeing customers

having increasing confidence in coming to us to resolve their issues. And that's reflected in that quite dramatic fall.

In saying that I'm not wishing to give any projection about where that future goes. We're heading into the wet season, we get variability in TIO complaints based on things we might release into the market and so forth, but the signs are very encouraging, and we won't be satisfied until we see much further reduction in our overall TIO complaints. So we're not resting on our laurels, we expect to do much more there.

The next area is sort of the field revisits. It's something we manage quite carefully. So this is to the extent to which our field technicians resolve faults or issues in customers' homes or businesses in the first time and they don't require a revisit. This can of course get impacted by weather events, and some of the blips you'll see are associated with bushfire seasons, flood seasons, cyclones that hit Australia where we do get seasonality there. But the reduction again reflects in improved processes, improved systems, improved culture, and reflected in improved performance across the field technician area. Very encouraging signs in the productivity dividend that flows from the reduced need to do additional truck roles to service customers.

Online is another one that we talked about last year, and we had ambitious aims to improve our online environment. We do see this as a very key component of our future service provision. Customers prefer to deal with us online. And we've again had very pleasing results with quite significant improvement in online service delivery throughout the year. There's sort of two components to our changes there. There's what we're changing in terms of the look and feel of the site itself, and there has been a progressive rollout of that. We have also looked at the infrastructure and platforms under which we provide the online environment, so we're anticipating very significant transaction growth online. It's very important that we build the platforms to do that. That requires investment, and that investment is going on behind the scenes. So we're looking at single registration in enrolment processes for online, stable platforms that can handle substantially higher volumes for online billing and so forth. So that investment is not terribly visible, and we don't make much public pronouncement about that. But the changes at the front end need to occur simultaneously so we attract people to that

site.

And there have been a whole range of announcements in terms of our changes to the online. And in the documents that you have as part of the investor day pack we have listed out the sort of service improvements that Telstra has made over the last 18 months and again there's probably 90 or 100 of those individually mentioned. Some of those relate to online, we've got a new TB online store, we've just released a new mobile online store for sales, we've refreshed the telstra.com website and made it easier to navigate with greater levels of service offering available. Some of those are listed through that document together with the other service improvements that we've made. It gives you a sense of the scale of changes that we are making in customer service and online being a key component of that.

As we look at pricing simplification Kate's team has been leading this. And initially when we looked at this we thought, well it was my intention to sort of do, let's do a big simplification project and go out and launch pricing simplification across the board as a big ticket project with a big deliverable we could announce. In looking at the intense activity going on in the market place and our need to remain competitive with the customer inflow that we are having, we changed course there and decided with each price change that we implement we'll put a simplification lens on it. So as we have refreshed prices during the year, basically all of our price offerings to the market have gone through a simplification process. And you'll see that in our offers that are out there now being much simpler for customers to understand what they're buying, and we've reduced the number of bundles. So for example our standard consumer bundle, we went from 19 bundles to 10 in terms of what we offered to the market. In the business market we reduced post-paid plans from six to two. Just making it simpler for customers to understand what they were buying and for us in terms of offers and choices, making that clearer.

We've also removed a lot of nuisance charges. So the unlocking charge on the iPhone is gone, a whole range of charges where the feedback we were getting from customers that they don't see the value in the charge, or the merit in the charge, and it was causing excessive customer complaints, we've looked at rationalising and removing those sorts of charges where they just don't make sense. There's been a whole series of those that have

gone out with the price upgrades that we have. And then of course the basic offers within our offerings to customers have got much more value in them than they had before. So we've responded to customers' demands to see more value in the offerings coming from Telstra with extra data allowances and so forth, that being included.

So that team has worked very hard on that component as well as addressing the market need for responding in different areas of the market that Gordon will talk to later on. But I'm very pleased with progress there. We've still got a way to go but I think we're seeing a fresher Telstra approach to pricing.

And from a process point of view I think this is a good example of how we're looking at improving the end to end process for a customer. So it's not just the pricing change that has impacted what customers see with Telstra. We've got more brochures out there explaining what our products are. We have 150 MyOffer summaries that is a one page, simple explanation to a customer of what they have purchased from Telstra, what are the data allowances, what are the concessions, what are the terms, conditions that are relevant. They get that as a one page. And over the last month 6.5 million Telstra customers have received the new consumer bill which is a much easier laid out format that customers can relate back to what they've purchased, what they've seen in the my offer summary, that now all links and flows through, which is something we did not have in the past and we've received very positive feedback from customers on that sort of change as we wheel that through the business.

Productivity is an important component of Project New and I just wanted to spend a bit of time looking at how we deal with that. This is a chart that John produced at the annual results that shows \$622 million of productivity that was realised through the business last year. The complexity of that chart demonstrates the complexity of the challenge we have around productivity. We have areas of the business we're investing in. Gordon will go through how successful we're being in winning back customers, and we need to fund that market share growth as we have more customers returning to Telstra. And we need to balance off reinvestment versus cost out in the various activities we're doing.

John also mentioned at the half the concept of avoidable cost. And I think that's very important in terms of how we manage that. As we invest in new areas of the business, the danger you get is you take all of the cost out of the legacy component of the business, the new growth areas don't get the same level of scrutiny, and they run like topsy and you end up having a cost problem in the new areas. So we're very conscious of doing that as we set up the growth areas of the business in NAS and media, those areas that we are investing in and are delivering new returns. We're very conscious of setting up the right costs profile there. And even where we're making investments, like the DVC investment that we've made over the last 12 months, we still look to reduce costs in DVCs while we're investing in DVCs, so that we get a bigger bang for the dollar investment that we're making. So that avoidable cost concept is quite important and I would add another 30, 40% to that number in avoidable costs. And as John points out it doesn't hit the bottom line, it's not real, but it's important that we do look at that.

And then of course as David says to me, the net result is important as well. So the reinvestment that we make is also important, so the net result for our shareholders needs to be balanced. So can we afford the level of reinvestment that we're doing in different areas balanced off against the costs that we're taking out.

So they're the components of the program that are managed. It's managed across the whole Project New exercise. David, John, Paul, Tracey in HR and myself meet every week to review this. It goes to every single board meeting. It's a focus of attention for the company because it drives our ability. We earn the right to deliver the growth areas to the business by getting this executed properly.

In terms of how I think you should look at productivity, as John said at the annual results a lot of the activity last year was back end loaded. So we spent the first half of the year sorting out what we needed to do. And we had some quick wins, and we did take some head count out in the first half, but a lot of the costs savings last year were second half driven. And we get the full year impact of that cost saving this year. So that's a free kick going into this year as the full year impact of costs savings from last year.

In addition to that you should reflect on what we talked about in terms of bad volume reduction. We are seeing the reduced bad volume reduction, and I've presented some of that data today. Now, that flows directly through to costs savings. Every call to a contact centre costs us money. The reduced calls to the contact centre flow through to productivity. Those fairly substantial drop offs in volumes are going to be realised in productivity savings that will be incremental as we go into this year. And as I said earlier we're about halfway through the productivity program, so there are further initiatives going into this year that will be incremental to what we've already achieved. So I'm expecting quite significant increase in the gross productivity outcome this financial year from next, and then a flow in to the following financial year. That should be the expectation.

Culture change. As I said earlier we deliberately lagged the culture change and on reflection I think we got this pretty right. We had too much process systems issues and too much reorganising of our operating model to do to drive heavily the culture change, the behavioural change required in the business. It should not be interpreted that we don't see it as important, and I still think it's one of the biggest drivers of customer service improvement that we can achieve is getting this culture right. But commencing in March this year we put all of our people leaders through the initial round of culture change activity, that was all of our in house people leaders together with the people leaders from our key partners and suppliers. And the response to that we've been very encouraged by. But we have further work to do, and I think there's another two years of work in culture change to roll this through the business. And, you know, in saying that there's absolutely no notion that the people and the staff at Telstra do not want to provide service to customers. We've actually got to change the way we work to be more service oriented to allow them to deliver the service they wish to deliver to customers. We're making good progress on that, but we've got to equip our front line staff with the skills necessary to deliver service and the tools to deliver service as well. And I think we're making very good progress on that. But we're early into quite a long journey there.

Where are we going from here, is the next question. And we're still calling it Project New internally, and again I think that's important because we set ourselves a range of things to execute, there was a two to three year implementation time frame and we're going to see

that through to completion, so we're still internally reporting that. But as we move forward you're seeing a lot more of the embedding of the changes in the business. And I think that's critical. At the moment we've got a project that's delivering, but we haven't got a company that's geared up to doing this continuously so we don't have to run a Project New in two or three years' time. And that's what we're aiming to set up now, so embedding being very important, the culture change that I mentioned, and I want to talk a little bit about the next wave of productivity improvement.

How do we do embedding? We're planning to reintroduce process ownership back into the company together with a continuous improvement approach. So every issue that a customer has with a process, everything an employee identifies that isn't working with the process will have a channel to get that repaired on an ongoing basis.

At the moment I would say we've largely repaired the biggest issues that we have in process but there are still many smaller issues that are routine areas that our front of house staff get annoyed with, where they're taking too long to service a customer, it takes too long to activate a mobile phone in a retail store, that we have to hone and get right. And that's a deeper level of process change and a continuous look at getting those processes right as we change offers. So progressively during the course of this year we'll be appointing process owners to the key areas of the company, and they will have the key responsibility for ongoing continuous improvement in our process and systems to deliver customer service.

In terms of culture change, some important aspects of that. We're looking at introducing net promoter score and a net promoter system for providing customer service. Net promoter system refers to how many customers advocate for you, how many customers are passive towards you and how many customers are detractors of you, even if they do use your products and services. Gordon will go into some detail about what that means for the front of house. It is going to be implemented across the company. And what does that involve? It will be new metrics that actually measure the net promoter score right throughout the company. So every retail shop, every contact centre, every depot, all our internal units having net promoter score measures and an overall measure for the company in terms of tracking that. It will have new customer feedback mechanisms so we will be reporting back on customers'



feedback as promoters and detractors for each unit, each retail shop will get a score and understand the verbatims from customers about why they've concluded that. So new reporting, new training and development being centred around this. So quite a comprehensive program to be delivered over the next 18 months in the company commencing early next calendar year, and with the metrics coming out about around mid year.

Associated changes to sales and service training, but fundamentally changing the way we work, and I'll get Gordon to elaborate on that within the customer business units being the key front line there. But we're putting a lot of stake in that. I think the standard customer stat measure doesn't get us to the level that we're targeting in customer service. We believe the net promoter system will allow us to achieve differentiated service in the market as we go forward.

And finally the second wave of productivity improvement. So I don't want to pretend that we got it all right first time around. We didn't. And you always, when you've got such a big program, and we've done so much restructuring and changes to the operating model, it's natural that we should go back and have a look. And that's part of the second wave. We also want to expand so we've got now all of our international businesses going through a productivity exercise. All of our subsidiaries going through a productivity exercise. And a deeper look in the business.

We're having an additional look at capital and I think there are opportunities there to reduce our need to spend that 14% or so of revenue on capital going forward, so we're looking at can we make changes there to deliver capital improvement. Because the focus has been on OPEX to date. And we're doing a much deeper look into the business.

So the expectation there is that program will be similar in size and scale to the one that we've conducted and are implementing to date. And it should extend the productivity outcome at substantial levels for at least the next two years beyond this financial year. And it may do more than that, but I don't want to, I think we've got line of sight of two more very strong years of productivity saving to be delivered by having this second look through the business.

So that work has just recently commenced. And we won't have that much impact hitting this financial year. But it will roll out for next year and the year after. But as I said earlier, we've got a good number for this year in sight based on the work that we're doing out of the first wave program.

So that's it. The results are encouraging. I again reiterate we still think we've got a long way to go both on service and on productivity, but we're starting to see the results flow through the business. It's got quite a bit of momentum and we'll continue to report out results as we go forward with this, and there's probably another year or two of hard work ahead of us to deliver this. Thank you, I'll hand over to Gordon.

**Gordon BALLANTYNE:** Good morning ladies and gentlemen. You've been listening very attentively for an hour and 45 minutes and I promise to be brief, if it's possible for an Irishman to be brief.

Now we've had a really, the last 12 months I mean it feels like it was only yesterday when I was here talking about our consumer business and our plans for the consumer business and I think I'd only been in the business for a couple of months and we'd been coming out of a year where we'd, you know, lost share in five of our six categories as a business and, you know, we'd had a pretty difficult time with a couple of profit moorings as well. And I recall when we talked last we talked about awakening the sleeping lion, you know the capabilities that Telstra has, the network that we have, the products and services and the reach we have are second to none and shame on us if we can't begin to win in the marketplace.

We set ourselves three imperatives. The first imperative was to improve customer service. The second imperative was to choose three must win battles in this marketplace to ensure we do retain and we do grow our customer base. And the third was to begin to build a world class sales and service organisation. You know anchored in the fact that, you know, our engineering prowess and capability are second to none, but let's build a world class sales and service and marketing organisation. Recognising many of the industry challenges that David pointed out earlier on.

We want to talk a little bit about well, you know, what's happened since then and just reflect on, you know, did we deliver in what we said we were going to deliver. We also during that time made some changes to our organisational structure. And I want to talk a little bit about, you know why I'm excited about, you know, some of the opportunities, some of the possibilities of this new organisation we've created under this Chief Customer Officer role. And I want to talk a little bit about, you know, what that actually causes us to be able to do in the marketplace but also how to help us accelerate all of the encouraging improvements we've seen within customer services as well.

So that's the agenda for today. Twenty minutes hopefully and I know you've got a very long list of questions and there'll be ample time for questions for all four speakers after that.

So let's talk a little bit about the most important thing, our customers. You know as you've listened to David, as well as to Robert, we have seen some significant change in how we are improving customer service over the last 12 months. And it's encouraging to see, you know, 28% reduction in calls into our contact centre for a scale of the business that we have is quite a dramatic change. And part of that's been anchored in much of the cultural work as well as all of the process changes that, you know, Robert's disciplined approach to all of the process changes we need to make are brought to life. And part of that cultural program was, you know, recognising when we take a call that the agent who is answering that call or the consultant in the store actually takes ownership for that customer's issue and they get it right first time. And much of that volume reduction is actually getting it right first time for our customers and therefore we've seen a dramatic reduction in call volume as well as many of the process changes which have just got rid of bad volume and subsequently cost within our business. And, you know, 50% reduction in TIO complaints tells us that our customers are beginning to think and talk about Telstra a little bit differently and that's a really important step as we, you know really drive this service agenda.

But this development also looks at the last quarter and shows you, you know, we're actually seeing an acceleration of the improvement in customer satisfaction which gives us confidence that many of the things that we are implementing, where we're making the real investment, are truly making a difference for our customers but also for our people. Because

our people each day turn up because they want to do a great job for our customers and sometimes many of those processes just get in the way. And that's before we've actually even launched our new bill. And I'm sure many of you have got, who have received our new bill, I'd be interested in some feedback later with regard to what you think of it. But it's a much simpler bill and our staff and our customers are really providing very positive feedback which, you know, encourages us to say that, you know, that trajectory is a sustainable trajectory.

But clearly there's so much more to do with regard to customer service and we'll begin to talk about that a little bit later about some of the changes we're going to bring to bear this year which will be fully implemented in FY13 which will hopefully continue that momentum.

We also talked about some must win battles, and I do recall that, and we talked about three must win battles. We talked about fight back and PSTN fixed broadband. And we talked about the importance of bundling our products and service to deliver that. Last year we delivered a million bundle services. We grew our fixed broadband base after year of decline by about 9% and we grew our share by about half a percent in revenue terms. So we're making really positive momentum within our fixed broadband portfolio anchored in our bundle strategy of bundling services. And today about 54% of all of our fixed broadband customers have their fixed broadband packaged within a bundle and that represents also 25% of our PSTN business.

But the good news is when we look at those customers who are choosing our bundles about 40% of them are actually taking a new PSTN line and around about 60% are taking a new fixed broadband service. So it's not just retaining our existing base, we're actually seeing growth fuelled for new services to new customers as part of those bundle offerings which are still a premium in the market, and we will still maintain that premium, but we're seeing it actually driving growth in new customers as well or stemming the decline in our PSTN business. And I feel really positive. The first must win battle I think we really have shown some good success.

The second must win battle was in our post-pay business. You know as you recall we lost

share in FY10 and we stayed in the best to grow our business and over the last, as you've seen from many of the, I've read many of your analysts reports, we grew our revenue share by 3% in our post-pay handheld business. But more importantly we only grew our net sale share 1%. Because the focus is to be smart about these things. Make the right investment to retain high value customers as well as acquire high value customers. So that's a really positive statement around how we're driving and changing the mix because all of this requires us to afford the right to grow.

And we talked last year, remember when we talked about productivity, you know we're very much anchored in a commercial focus, a commercial steering of our business that really affords us the right to grow in a much more laser focused way around how we steer the commercials for our business and where we make investments.

I'm just going to give you an example of that which I think is really important. If we look back in Q1 FY10 about 17% of our post-pay business that we acquired was on a plan which was above a \$49.00 plan. Seventeen percent. One seven. Would anyone like to guess what our mix is this Q1 in our acquisition on post-pay handheld? This is going to be quite participative I can see. Any guesses on the floor? Sixty three percent. So we fundamentally shifted our mix while facing into quite a challenge in terms of growing and retaining our customers. So 63% of our customers on our post-pay mobile handheld business today are acquired on a price plan above \$49.00. And that's really encouraging as we think about it. You know growing in a profitable way our post-paid business.

And the third must win battle which is one of my favourites last year was be a challenger in pre-pay. You know last year we entered the market a distant third. We were 10 points of revenue share behind the number two player. We grew about 3.5 points of revenue share in the year and as we're exiting Q1 this year we can see the momentum continue and we're probably only about a couple of points behind the number two player in the marketplace. With that type of trajectory, you know, we'll clearly have the number two pre-pay category in sight for Telstra which is very exciting. That's because we're professional with our tariffs, we've stimulated our distribution channels and we've been really innovative around how we face into that challenge and grow that business.

You know it's a shame on us, I think I've been quoted before, that we actually as a, you know a number one player in the market, we were a distant third in the pre-pay market which can provide good profitability for our business.

So that's a little bit about the must win battles and I'm sure you're all keen to know how things are progressing since John formally announced the FY11 results. We can see that momentum continue. And that momentum continues based on, you know, the fact that our advantage of our superior network means that high value customers that are looking for a smart phone and a best experience are coming to Telstra. So there's 1.7 million customers, or 1.6 million if we adjust for M2M. Last year we continued to see some of that encouraging momentum into September on the post-pay handheld side but also on the fixed side as we've refreshed tariffs and continually refreshed tariffs across the business. And RPU sequentially improving driven by some seasonal impacts with regard to roaming but also in terms of the overall mix impact across the business. So that's very much about the momentum we've delivered into the business over the last 12 months.

I'd like to just move on now to talk about our new organisation. And for those who did not get a full briefing on the organisational concept we've brought together all of our customer facing business units under one point of leadership with our consumer country wide business, Telstra business, our enterprising government business as well as Telstra Clear in New Zealand. And that's creating one single sales and service organisation or of course our domestic business which is pretty exciting. It's pretty exciting to think about some of the possibilities that we have in that construct to think about how we choose to serve our customers better. You know for too long our customers have had to navigate Telstra and this provides a possibility that we can actually truly differentiate our service capability in the Australian and New Zealand markets through the structures we've created.

But it's also about creating value from our domestic core business and growing that aggressively and anchoring ourselves on three must win battles which are actually across the whole of the enterprise.

So I'm going to talk a little bit about the must win battles but I'm also going to talk about the

most exciting part of that opportunity which is how we deliver a step change in the service we deliver to our customers.

But let's just talk about the three must win battles across the enterprise. Mobility sits at the core. We will continue to grow profitably our mobile business. You know it is the engine of growth for our industry and we will fundamentally continue to grow.

As a business we've grown strongly last year and we continue to see some of that growth but I don't think that growth that we see could pull through of growth into Q1 and end Q and that will continue the rest of the year. But right across the enterprise mobility sits at the core of our growth and that's not just in the post-pay space but we will continue to be the challenger in pre-pay and with the launch of LTE that provides great differentiation propositions for Telstra in the marketplace to continue to grow that category across the business.

Bundles remain core. You know we have a million bundles today. We plan to have two million bundles tomorrow. And that's not just in the consumer space, that's in the business space where obviously our products of business essentials and digital business which is really core to fuelling our growth across our bundle strategy.

And that prepares us incredibly well for any technology shift in the market from copper to fibre as we think about our pending NBN business and the transition to NBN.

If we think about bundle customers, bundle customers have the highest product satisfaction of any of our customers. But more importantly they are 52% less likely to churn for an equivalent customer with the same set of services that are just not bundled. So that means our customers are stickier, they stay with us longer, they trust us to manage their technology transition to whatever the underlying technology might be in a post-NBN world and that's a really important part of our bundling strategy. We love bundles and we're going to continue to grow that category quite aggressively.

And of course then we talk about network and applications and services. You know according to IDC in the Australian market that's going to grow about \$2 billion over the next three years. And we have an opportunity to participate in that market and grow at a rate

that's greater than our fair share at present. And we have about 15% share today. You're going to get an update from Brendan and our great [inaudible] team a little bit later on.

But we also see a pent up demand from all of our enterprise and government customers who are focussed on driving productivity but also coming to Telstra and saying well Telstra can you bring all of this wonderful capability, all of these products and services, and bring them together in a seamless way to serve and support my enterprise. And that's a pretty exciting part of our growth over the next three years. And we see the growth fuelled by bundling, stemming a decline in our fixed business, our network and application services which are a huge growth area for us which we are really making a significant investment, and also mobile.

Fundamentally we haven't changed our focus. These are the three must win battles for our sales and service organisation right across Telstra.

But the most exciting thing about this new sales and service organisation is that what other possibilities to drive a step change in how we choose to serve our customers. You know a lot of time in Telstra we do a lot of business with ourselves and it's not terribly productive 'cause we could be spending that time better serving our customer. And I think when I reflect on it what could we cause and bring all of our 10,000 people across all of our sales and service units that serve 12 million customers, 8.5 million households, over a million small businesses, 1,500 enterprise and government customers, you know what could we cause by bringing all of those capabilities together. And that's complemented by 4,000 highly trained technical engineers in our operations team who are located in 300 different locations across Australia, what could we cause.

And I think the cause that we have set ourselves is around saying to ourselves just improving service is just not going to be good enough. We need to deliver a step change in a service that our customers should expect from us as part of that construct. And that's really one of the biggest ambitions we're facing into as we think about over the next three years well how do we change that conversation with our customers.

So we go to the next slide. Here's the brutal facts. The brutal facts of the matter are we have



more detractors than advocates. Here we have an iconic brand, an iconic Australian brand, with the world's best network, with products and services and reach and a customer base that's second to none yet we have more detractors than advocates. So if I was to set the ambition, and we're setting that ambition today as Robert talked about we're introducing within the business a new NPS system which fundamentally is anchored in just improving service. Even though we made all of these wonderful improvements this year and we continue to make improvements that's not just going to be good enough. It's not okay that we have more detractors than advocates and that's what we're going to change.

And that will require us to think differently about the culture within the business. And we talked about 5,400 people leaders who've been through a cultural change program really anchoring in a sales and service business that we really want to become over the next couple of years and that's having a huge impact internally around how people think about the customer. But it's not just about our people, it's also about our leadership team. You know do we care enough to really experience some of the things that our people experience each and every day and do we care enough to do something about it.

So I'm going to give you a little insight as to what our leadership team have been up to that gives me some confidence that that change is well under way.

[VIDEO PLAYING]

I always like looking at the faces of all of the CEOLT members when we replay that video and I was enjoying everyone's faces because it reminds us of, you know, what leadership's all about. Engaging with our people and demonstrating we care enough that we'll, you know, be a little bit vulnerable at times and that's what, you know, the change we're driving here across Telstra is. And I think one of the things when you're a leader in an organisation and you're trying to drive that change agenda and you're trying to really shift to be, you know, a world class sales and service organisation sometimes if you're investing a couple of billion in a market or you're investing a couple of billion in capital sometimes you say to yourself if only our people could try harder. If only our people could try harder and I have to say after we had that session on the phones which was almost eight months ago now there was a shift I think

for the whole leadership team which was how can I help, how can I help move this organisation to a completely different paradigm in terms of the quality of service we can deliver for our people 'cause everyone comes to work to do a great job.

And I also get reminded, you know I've only been in Australia now for 15 months, and you know I've had the opportunity to go to a few barbeques during that time. I have to say being based in Melbourne the weather's not that conducive to barbeques but I've been to a few barbeques and you know as I first arrived and I was telling everyone how proud I was to work at Telstra and I was quite surprised by the reaction I sometimes got when I said it. I often feel, you know, when you go to a barbeque why does every single Australian have their Telstra bill in their back pocket at a barbeque, why is that?

And so I would have some very good experiences but also have some very poor experiences. And I began to reflect on how does that feel for our people? How does it feel for 43,000 people when they go to a barbeque? And for some of those people didn't even say that they work at Telstra. You know when they're asked where they work do they stutter on a point of reflection and think whether they even choose to say they work at Telstra. When I think about that and I think about, you know, the reason why we're moving to NPS and the reason that we we're driving the program of change we're driving across the business, you know we have an iconic brand. We've got these wonderful products and services and, you know, what a fabulous brand, but for 43,000 people, or for some of those people, it's just not right that they have to think twice whether they say they work for Telstra. So that's what we're going to fix.

So the ambition is to change the way our customers talk about Telstra and that's anchored in the ambition we have for our people as well. So with that, thank you for your time.

## **Q&A**

**BEN SPINCER:** There's three, we've got three microphones here, we have until noon, it's about 50 minutes to take questions. Maybe, given where the guys are sitting,

if we just try and use these two microphones, we won't go to the microphone there on the far side. And we'll start here, but if we have a question for Gordon you'll have to wait a couple of minutes.

**David THODEY:** Can I just say one thing, the net promoter's score, just so, those two green things that are smiling, you've got to score nine and 10. The yellow guys you score seven and eight, so anything less than a seven is a detractor, so it's a really high standard, so I just wanted to make that point. Because I don't really want you to think there's a lot more detractors than promoters. Anyway, let's go.

**Digby GILMOUR:** Thanks David. Digby Gilmour here from CLSA. Just on Sensis first. Every offshore market is exhibiting a particularly incumbent and accelerating rate of revenue decline within directories. So the first question is why won't we see that here? The second question around mobile ARPU seems to be holding up fairly well in the first quarter. What are your expectations for second quarter and then second half?

**David THODEY:** Okay, yes, look, on the directories business we obviously model, Bruce has got I think every directories business in the world. And yes, the trajectory is that we're sort of on that decline at the moment and we're going to have to manage that through. We've got to take the costs out and move to the online. Hopefully there's a few things that we can do a little bit differently, but that's where we're at and we're trying to manage that very carefully so we are modelling. The best ones, there isn't a lot of bright stars out there, so we've got to be straight. So we've got to balance the business as we go forward. But the thing is we can hold the customer relationship which so far we generally are. We just weren't able to pick up as many new customers as we thought through the metro area. But we're holding pretty well, and then we're going to have to manage this really carefully. So I think that's what you've got to put in, it is the market, and there we go.

Yes, ARPUs were good first quarter. Look, we're not giving any firm forecast, but we don't see, as the smart phone penetration gets higher, we've got a good mix of plans, Gordon, we think that, that's what we'd expect for the year? Yes, yes, yes, so we don't see, there's nothing in there that we see that we're worried about as we go through to the second half.

That's the mobile ARPUs.

**Digby GILMORE:** So mobile ARPU broadly steady for the year, is your expectation?

**David THODEY:** Yes, that's our expectation, yes.

**Digby GILMORE:** Okay, thank you.

**QUESTION:** I had three questions. I might start with Robert. Robert, you know when you look at the Project New, I was wondering how do you look at benefit realisation within the project? Which of the initiatives do you think has the biggest bang for buck, the one that you would ask us to most focus on? And do you think that these sorts of initiatives can actually give you negative nominal cost growth? In other words there's an actual inflation in the business, can you actually pull that, pull that back?

That's my first question. The second one was just on mobiles, if we can just get an understanding around seasonality and the roaming piece that you raised Gordon.

The last one David was on mobile to mobiles, sorry, machine to machine on mobiles. You mentioned, and I think the numbers we saw was 100,000 net ads over the last year off a base of about 600,000 now. Is this business starting to explode? What are your conversations with your client suggesting?

**David THODEY:** Okay, Robert, then Gordon, then me, okay?

**Robert NASON:** Okay, so Project New, it is difficult. On the customer service side, I don't think it is possible to sort of say there's one big initiative. I think what we've handed out today, it is hundreds of small initiatives to deliver customer service, and the culture change component added to that as well. So I don't want to separate one out from the other.

On the productivity there are pockets of opportunity. I think there's a substantial one in just looking at our overall outsourcing arrangements. So we've learnt quite a bit in terms of in some cases like in IT I think we went too far in outsourcing. And we've done a lot of

insourcing, we've brought contractors back in house to get that mix right. In other areas of the business in some back of house areas I think there are greater opportunities for outsourcing. So I think that's an area for general productivity improvement both ways. And our overall suppliers, I just don't think we've worked our suppliers, and in some ways our assets, hard enough. And that's one of the focuses of the productivity program. And the sort of numbers we're talking about should lead to net declines in costs, but that being said, there are growth areas of the business that we've got opportunity in and if we're winning market share we should be investing in that. So I think that's the issue for the business. At a gross level we're providing quite an opportunity for the business to have flexibility to earn the right to decide what to do, and I think that's the job of Project New is to deliver that outcome.

**David THODEY:** Can I add something there Robert. So I get Robert to prepare the chart I want to present at the end of the year, in terms of labour, labour sub to revenue. That's the key one. Because at the end of the day, just outsourcing, just look at labour costs. DVCs come and go, but labour, labour's sub to revenue. So I get him to write the chart and I say okay, now that's what we're going to go and do. And we're trying to do that over the next three years. And I think that's the only one at the end of the day. So you've got to drive that, if you don't, then it's all been a lot of hard work for not much return.

**Gordon BALLANTYNE:** On the mobile ARPU, we only showed post-pay handheld mobile ARPU on that chart. Clearly there's a mixed effect between mobile broadband as well as pre-pay as well. There is some seasonality effects. But in terms of providing a supporting adjustment to your forecast, Warwick is going to go through a deep dive on mixed and ARPU in the breakout sessions, so perhaps that will provide a little bit more colour in terms of some of your models, how you choose to adjust them after that.

**David THODEY:** And machine to machine, Warwick's at the back, have you got a mike? But machine to machine, yes a lot has been telematix, sort of traditional sort of monitoring up there, a lot of remote video in the mining sector. And that's where it's coming. But we've been doing quite a bit of work segment by segment. But Warwick, do you want to make a few quick comments and pick it up in the, say a few comments now.

**Warwick BRAY:** Sure. So we do expect machine to machine to accelerate as the question asked. The three biggest verticals at the moment are logistics trucks followed by security and then followed by energy. The 2012 calendar is meant to be the year of the connected car, but what's going on with machine to machine is a very long tail of vertical applications as well. We are having more and more conversations with our customers. And the reason is they're seeing a lot of productivity gains from putting SIMs into the applications that I've just talked about.

**David THODEY:** Thanks.

**Vikas GOUR:** Thanks. Just in terms of Sensis, at the last Sensis briefing you provided an outlook for, it wasn't guidance, but it was outlook for FY12 and 13 for mid single digit revenue decline and high single digit EBITDA. Is it possible now to provide a bit more colour in relation to those outer years? That's the first question.

And secondly in relation to the SSU, is there a chance that the SSU approval will be delayed to next year? Is there a certain time limitation or constraint within which the SSU has to be approved in that time? And also lastly in relation to the negotiations is functional separation completely off the table?

**David THODEY:** Answer number three, yes, off the table as far as we're concerned, we've been very clear. I'll let John answer the second one. In terms of the first one with Sensis, we had a three year plan on the transition, and what we've seen is a little bit of acceleration in what we had anticipated over the three year period into this year. And we really don't know yet. And we need to go through the non-metro canvasses, and then I think by, we'll be able to have a bit of a view at the half, a bit more colour to because we'll be finished on metro, and then when we go forward. So we're really looking into this Bruce and managing it on a daily basis. But we have a three year plan.

If you look at other directories, there is a, it comes down and then there's sort of a flattening, and then the question is when we get to that point. But we've got that model and we'll be able to give you a bit of a sense at half and then at the full year. So we wanted to keep you well briefed on it, as we go forward, so I think that's it, Bruce, yes.

**John STANHOPE:** So, on the SSU, there's no time constraint per se on the SSU. But there is a 20 December date in the DAs that the DAs become void. But it also says we can get together and extend that date, right, so NBN and Telstra would do that. But as I said earlier, our objective is to get this done. We all are focussed on that 20 December date because nobody particularly wants to go and talk about extension of the DAs, NBN doesn't want to because they want to get on with things. We don't want to because we want to get on with things. And the Regulator is aware of that date. So we all have this objective of getting it done inside that sort of time frame.

**Vikas GOUR:** Sorry, just to follow up on that, is the December 20, if that date is delayed and you need to get an extension, will that require a shareholder vote again?

**John STANHOPE:** No

**BEN SPINCER:** We'll go over here. Can I ask you to state your affiliations as well for the benefit of those on the webcast. Thanks Brad.

**Brad CLIBBORN:** Brad CLIBBORN, Credit Swiss. Three questions from me. The first one for either David or John. Last year when you talked about the billion dollars of OPEX investment, you put up a slide saying how you'd get back to FY10 levels of EBITDA in FY13 about \$10.8 billion. I notice that's missing this year, so if you could just comment on what your outlook is in terms of I guess the two year view on earnings.

Secondly in terms of Sensis, with the strategy around trying to bundle up the digital advertising products, do you think you've gone too early in terms of trying to do that that's actually driven this print erosion, or the acceleration of print erosion?

And thirdly in terms of Sensis, the strategic importance of it to the overall digital portfolio, what synergies do you actually feel you can leverage across the rest of the business through owning Sensis? Thanks.

**David THODEY:** Okay, let me take the first one and then I'll get John to add. No, we haven't put the chart up, but it doesn't mean that that isn't our intent. However we did not give any firm guidance, let me make that very clear, we just said that we think that

EBITDA will improve. And that's I think directionally where we're headed. John, do you want to...?

**John STANHOPE:** Yes, sorry.

**David THODEY:** He can say just about anything at this point.

**John STANHOPE:** No, I won't, somebody might drag me into court later. No, look, it's still our aim. That is still our objective. We've been very focussed, you referenced the billion dollar investment and so on. And we said we're very, very focussed on getting back to earnings growth this year, that's what the guidance tells you, Robert's told you about our, what we're doing over the next couple of years with productivity. So our objective is still to get back to those sort of levels.

**Brad CLIBBORN:** But will NBN payments support that, that level of EBITDA?

**John STANHOPE:** Sorry, will what?

**Brad CLIBBORN:** Will the NBN payments support that level of EBITDA?

**John STANHOPE:** It does include the NBN receipts. But remember NBN also has a share impact on PSTN and the decommissioning is to offset that. The additional revenue as I've said many times out of NBN is the infrastructure and wholesale revenues.

**David THODEY:** The other question you asked, the second one, was have we gone too early in terms of the digital products, and we've asked ourselves the same thing. The answer's, we believe, not. Bruce and I had a long conversation about that. The market has moved, and if you turned up and just had a print product in your bag I think you'd probably get a pretty short conversation.

But we will continue to look at that, because I think there may be some remixing. Bruce has already taken a little bit of action for the non-metro group just how we're going ahead with that, and as we hit metro again, what is it, about March/April next year, we'll look at a different mix too. But yes, look, there's some work there. You always ask yourself have you precipitated a move, and at best we can tell no, but we're getting some more data and



working through that, but the print decline has really been, I mean, I've talked to a few retailers too, because of this incredible move to online retail, and they say gee, I don't know where it hit us from, it's just sort of happened. I remember we have held print a long time very well trying to manage this thing, but it's just definitely gone ahead of where we thought it would be, okay.

And then your bigger question was sort of well, how can you leverage, or can you leverage the Sensis in this portfolio? Look, for any media business there's many different types of media assets you have. Sensis is very specific. SME, it's online advertising. But if you're just in print, I'd say probably less leverage. Once you move into online digital, more. And therein lies part of the decision to pull all the assets together. And as you move Sensis becomes a digital media business on a print, we've got a whole printers, we like print, but as it goes more there there will be more synergies we think in the future. And we'll just need to work through that as we go forward. We've obviously done some thinking about that but it's still early days.

**Brad CLIBBORN:** So you do see it as an important part of the portfolio?

**David THODEY:** We think that there's opportunities for it, but I want to be clear, we'll always, if someone knocked on the door and said here's a lot of money, but I think at the moment if you look at print properties across the world, I don't think a lot of people are going to offer you a lot, so we're going to see what we can do to create value is the bottom line, and so we'll see what we can do with it. But we have to manage it very carefully, and that's really what we're saying today.

**Ben SPINCER:** We'll come back, we'll do Daniel, Mark and Christian here, I know you three have been waiting the longest.

**Daniel BLAIR:** Okay, thanks, Daniel Blair of Bell Potter Securities. Three questions from me. Perhaps firstly Robert just on the cost out, if we can just try and frame that, the actual quantum would be helpful. You talked about 620-odd million of benefits in FY11, you talked about the momentum and the profile into 12 and 13, but how does that 620, what does that look like in 12 and 13?

That's the first question. Second question just within guidance, perhaps one for you John, there was the half a billion dollar placeholder for M&A, can we just talk about where we're at for that?

And then thirdly one for you Gordon, your three business segments, can you just tell us, across TB, TEG and TC just how they're trading? Thanks.

**Robert NASON:** I think I can't say anything more than significantly more, John, can I, for this year. I've sort of given you guidance on how you should be thinking about it, but I don't think we can say more than that.

**Daniel BLAIR:** Well, I'll perhaps ask it a different way. Of the 622, what did it look like in the second half, how much was in the second half?

**Robert NASON:** Yes, more than two thirds of it.

**Daniel BLAIR:** Okay, thanks.

**John STANHOPE:** With respect to the guidance, the investment 500 is obviously related to the free cash guidance, and we've spent very little in this year, we've not had any acquisitions jump out at us that and meet the hurdles that David has spoken about so that's where we're at to this point.

**Daniel BLAIR:** Thanks.

**Gordon BALLANTYNE:** Just looking across to the three main business units. Consumer are going well, slightly above plan, so we're encouraged by that, as you saw some of the momentum coming into the first half, that's continuing, so positive. TB relatively flat, we're going through a period of transition as we shift from some of our fixed assets to digital, not to the same scale as Sensis but in terms of as we look at new products that we're launching into the market, looking into bundling new products, obviously Will Irving is here who's now leading our small business group, and we've got some exciting plans coming out of the back of late next year into FY13 around small business. And enterprise and government are really on track, have good momentum and there's a lot of pent up demand.

It's just all about execution and delivery in the second half. So we're quite encouraged by that momentum and pleased by the acceleration and you'll hear a little bit more from Brendan and Paul McManus and Phillip a little bit later on about that business as well, and they're giving you some examples of some of the customers that we're now engaging with and the conversations that we're having which is quite encouraging.

**David THODEY:** Yes, I think there's a little bit of softness in SME, generally, you know, we've still got the summer floods last year have flown through, but both product transition, momentum and a little bit of softness in that market. Holding, but we want to do better in the second half.

**Daniel BLAIR:** Thanks gents, well done.

**BEN SPINCER:** Mark?

**Mark MCDONNELL:** Thanks Ben. Mark McDonnell BBY, good morning. A couple of questions. Firstly one of the down sides of simplification is that your graphs in today's presentations very rarely have any numbers on the vertical scale.

**David THODEY:** Yes, it's true.

**Mark MCDONNELL:** My question about that is are those graphs illustrative or are they to scale?

**Gordon BALLANTYNE:** Some are illustrative, some are to scale.

**Mark MCDONNELL:** That's what I was afraid of. Well, would it be possible for your IR team after this to provide an update on which ones are which?

**David THODEY:** On some of them I think we could be, I'd have to ...

**David THODEY:** They're all the right shape and ...

**Robert NASON:** David's just being objective.

**David THODEY:** Some of them we definitely could, I mean, you know,

because it is helpful instruction because you can see the transaction volumes. You see we always get caught, you know Mark, a lot of our competitors like to see what data we've got, we want to share with you but it's actually less about you, its more about and we've been accused of giving too much information. I know our competitors watch this program and they want to see what we're doing and that's the only sensitivity we've really got and I am very sensitive because its come in to market. But let's see what we can do and maybe we can do it in a way. So Ben, where are you? Yes, okay ...

**Mark MCDONNELL:** Okay, thanks. The only other thing I wanted to raise, I mean obviously today its largely about operational matters, and I did want to come back to your core priority or number one priority which is improving customer service. And I am particularly interested in understanding why you don't have dedicated agents for each of your problems? And the reason I mention this is that from my own experience and that of other people I know, it seems to me there are some design floors and some of your staff gain the system which actually increases customer dissatisfaction. Okay, so, just a brief illustration of that. There's a high degree of problems that are not resolved on the first call. An incoming caller gets an anonymous call agent. That call agent is incented under your customer satisfaction survey methodology to have that caller leave in the expectation that the problem will be solved and solved quickly. So call centres actually lie about the speed to resolution. They get a good score only to then have that customer have to ring back, they get another randomly assigned agent, they now have to explain it all over again and how they were lied to, and again that agent knows that at the end of their conversation there's going to be a customer survey where their pay is linked to the answer given. Now, you could fix this if you had, if the rhetoric that we heard today, which was about culture change, which was about people actually taking responsibility and that that is actually traceable, if that was actually implement ... Now I know you do it in some cases, but you don't do it in a lot of cases and it seems to me to lead to that kind of problem. So the question is, are you going to change that?

**David THODEY:** So Mike, can I make a comments there and I'll pass it to Gordon because you've got a really good point and we have not got this 100 % right, but there's a couple of things in there that we have taken steps and we've got more to do and I

can sense from your question that there's a lot of passion, I won't ask who it was but ...

But firstly, the anonymity, there should be no anonymity because they have all got to give their first name and their serial number, so if you ever ask for it but we don't give out last name. The only metric we worry about, that survey at the end of the transaction is a feedback mechanism, we don't measure people on that, its only when we do an independent survey, independent people, that's what we're all paid on, so that's, because we didn't want them to gain it but they do gain it. We understand and they don't always put you through to that transactional survey. But your point is mostly around this taking ownership of the issue, saying hey "its David Thodey here, if you've got a question, come back to me and I'll sort it out", so we've got continuity.

We do that for level one complaints but the general ones that come through we haven't have we Gordon? But I think its an idea, its getting the efficiencies right there. So let me pass it to Gordon, but it's a very valid point.

**Gordon BALLANTYNE:** The first thing to say is that we still haven't got it all right. The second point is, just in terms of, there's a couple of things that agents are measured against. One of them is first call resolution. I just want to explain first call resolution because we measure actually two measures for first call resolution. So if your complaint, and this is on an agent's call card. If a customer calls and they call in with a period of seven days or 30 days having had a potential resolution of their issue, that would be deemed to be not a call that's been resolved on the first call. So we have a seven day measure, a 30 day measure, that's all part of the score card for our agents. So if an agent is as you say "gaming" and saying its going to be fixed and then the customer calls back, actually that does appear on their score card in terms of overall first call resolution for that customer.

On the survey, one of the reasons why we're moving to NPS is because we want to begin to remove the possibility that customers are inappropriately or appropriately put through the survey based on something which is not factually correct. And as we're evolving the VPS measure, we're actually looking to make that more as a system initiated engagement with the customer, not an agent initiated discussion with the customer. And we have both a top down

measure and a bottoms up agent level measure.

So there are some structural things we have today which is actually on the agent's score card and they know it, but I'm very happy to take any examples or personal experiences you've had and dig into those and ensure we address agent appropriate behaviour. I mean in a community of 20,000 you will always get those within that community that don't value the point of creating advocates in our customer and that's the change we want to drive.

**Mark MCDONNELL:** That's true Gordon but my point is its about your processes and systems design.

**David THODEY:** Its personalisation and accountability. I got it.

**Robert NASON:** But that point David, I don't accept that we accept that any of our customer facing staff lie and I don't accept that you can draw on an individual circumstance to say what we're trying to say to investors which is indicated in the statistics is that we are having traction. So for example, one of the investments we have made is that there is now voice recording for every single call to the contact centre, so every call is recorded and the agent receives direct feedback in exactly that situation. So I can say right now an agent who has said the wrong thing to a customer will be coached on the experience that subsequently followed where they gave incorrect advice. That happens now in our contact centres, and we've implemented and invested in voice recording in all of our contact centre environments to provide that. That's one of the systems investments we've done. So there's lots of ideas people have for individual experiences, we've got to look at the total experience for all customers, and we are making those investments. As we said, this is a two to three year journey. I'm confident that the issues you're talking about are addressed in the current program and we're making the investments to realise it.

**David THODEY:** So we could find that personal call if need be Mark, so anyway. Good push back Robert, in the sense that we are doing a lot, but we don't get it right all the time, I hear that.

**Robert NASON:** I accept that but I don't accept we tolerate that at all.

**David THODEY:** Yeah, no, and the culture, yeah, I agree. But every instance is slightly, we can't be across everything. Okay.

**Christian GUERRA:** Good morning, its Christian Guerra from Goldman Sachs. Three questions from me. Firstly on the FY12 sales guidance, John, probably a question for you. I guess once we include those regulatory changes that you talked about, the MTR and the fixed access, do you think that I guess your overall reported revenue growth is at risk of going backwards in FY12 just given the trends at Sensis and I guess as part of that, what are you assuming on the Sensis decline? Secondly, Gordon, a question for you on mobile ARPU's. I think you said earlier that you think ARPU's will be broadly flat in FY12 versus FY11, just wondering if you could maybe talk us through what your assumptions are there and why you think that's the case given the ARPU pressures we're seeing across the industry. And thirdly, John, something that we've talked about before but I'm just after a bit more detail, which is on your spectrum payments or spectrum sort of capital outflows over the next years. Just on the timing of the renewals and the magnitude and I guess on LTE that's probably maybe FY sort of 14 – 15 I think, but just want to get clarification from you on what you're thinking on the timing of that one as well. Thanks

**John STANHOPE:** Okay, so I'm going to talk about the guidance. In answer to your question, when you include MTR and FAD, will we go backwards? No. In the guidance, all that's occurring at Sensis is included. So, its within, I've sort of looked at all the business again, the ups, the downs, the productivity improvements, and that's why we're reaffirming guidance and no we won't go backwards when you add back in if you like the regulatory.

Let me cut to spectrum even though it's the third question. We've said before, we're expecting a major cost of spectrum to be in the fiscal year 13 as we go maybe some will slip into another year but again people have said before, the cost of spectrum we will borrow for, it won't impact our free cash flow in an operational sense, nor will it impact our ability to pay dividend or perhaps return capital to shareholders.

**David THODEY:** There is the renewal going on at the moment and we're working through that at the moment with the government but some [inaudible] we haven't

finished yet.

**John STANHOPE:** One other thing I'll just say about that, and David had a slide up there about our debt and our parameters and our comfort with our parameters. Part of the reason we are at the strong end, so we're at the strong end of the negative gearing 52% and we are stronger than strong, if you like, of interest cover and our debt servicing. That's deliberate so we can accommodate spectrum in our balance sheet, sorry to debt ratios, so we're deliberately planning of the fiscal year 13 debt required for spectrum and still be at the strong end of those parameters.

**Christian GUERRA:** Have you thought about the quantum of the renewals?

**John STANHOPE:** I think the quantum of both renewals and possible auction, I've had to guess what the auction might be, I could be wrong by a couple a hundred million dollars say, with respect to the auction. But nevertheless if I'm wrong by a couple a hundred million dollars, we still have the financial parameters to borrow etc.

**David THODEY:** So renewal, the 7 and 2600 digital dividend in the future, I'm sure the government wants a lot of money for them and we'll see how the auction goes.

**Christian GUERRA:** So that's probably FY15 you're thinking on the digital dividends?

**Gordon BALLANTYNE:** Well, we've been told that it may come to market in fiscal year 13, so our planning is along those lines. Who knows, the government could delay, but guess what, you know, governments are trying to close deficits and so on, I'd be surprised if they delay getting some money from the industry.

**David THODEY:** They've got to get the broadcasters out first at 700 ... so there's some physical stuff. But its there in the planning and we think we've got it covered so.

**Christian GUERRA:** So you might have to actually pay for it before you actually start using type thing?

**David THODEY:** Yeah, I think so, well, that's ...



**John STANHOPE:** Maybe.

**David THODEY:** Maybe, but remember the one thing about LTE that we've done is refarming 1800 and that's going very well. So there's other opportunities in there and depending on how much we need, but we will, we do want the 700, 2600 ...

**John STANHOPE:** We don't know the auction conditions yet. And you know, use it, lose it, you know, we don't know any of that yet.

**David THODEY:** But we're actually engaged.

**John STANHOPE:** Question two which is now three.

**Gordon BALLANTYNE:** Just on mobile ARPU's I mean we do have a break out session just after this, and I think we need to be really precise and if we give some insight into mobile probably hand held ARPU's which are not going to be the same way they were last year, we actually saw the slight softening in those ARPU's. And then we have the overall mixed effect of prepay and mobile broadband, and Warwick's going to go into some detail in the break out session and actually give you by category the individual trajectory and the profile of those ARPU's that we're forecasting or the actual ARPU's and condition trend projections as well. So I'd rather wait for them so we get a really clear picture of the mix effect. Obviously the M2M impact we've had is also creating an impact and that needs to be understood before you start adjusting your models.

**Laurent HERRUT:** Laurent Herrut from JP Morgan. I just had three questions. The first one trying to drill a little bit on Sensis because it was only in March this year where we had the dedicated briefing on Sensis when talking of returning to revenue growth by FY14 and that sounds way gone now. Just interested, what scores the acceleration in the last six months, is it more a case of customers turning off entirely the product or, I imagine there's also an amount of downsizing, but what was the major driver of the acceleration in the print decline?

So that's my first question, the second question is, David maybe for you. Just what's the extent of your ambitions in Asia, I'm still not clear as to, you know, is this year's sale really

part of the portfolio or is potentially for sale at the right price. You've mentioned China, you said there are some good assets but not so good assets, I imagine there's some issues there, it would be helpful, I know its small in the scheme of things, but it would be helpful to get a bit of an update. And just more generally, do you have an extension ambition in Asian markets?

And then lastly, just a comment that John made actually on the impact of smart phone, the same way you're saying you shouldn't be surprised that it impacts our usage of directories, of print directories. Just for you Gordon, what are the implications, what's the real cost, would it surprise you if we get negative broadband growth one day because of the usage of smart phones or usage altogether at home could be on a fixed line could be going backwards. What are you reading from that as well?

**David THODEY:** Okay, so if you net down Sensis, it would be as the customers are migrating to print they're not spending as much with us so you're getting a revenue decline which is what you'd expect with online. It's a little bit faster, well its faster than we expected. And secondly, the number of new customers we thought we could pick up either digital only or because we've got a good product has not been traded as fast as we'd want. But generally customers are staying with us, but if you net it down to the two things, so they migrate from print only, print in digital, they're contracting a lot of their print so they may not take a full page and they go to a third of a page or a half page to a smaller ad, that sort of thing, and then there's also they take on digital so we're getting less per customer and we've not picked up as many new customers as we need to.

So some of that is fixable in terms of we can get the sales team out to more customers, because when we get the product in front of them, its good. But the sales its taking longer, and the reason we're not getting new customers is because the sales cycle is longer because small businessmen will talk to me about adwords, but what are we going to do here and how are you going to report to me, it's a longer sales cycle, and we've only got a finite period as we go into any territory and therein lies the challenge. So if we can speed that up, get through it, the product itself is being well received and that we've been continually saying. So I think that's what it comes down to and I think that having a rich online product has

actually been very good and we're getting that good growth of adwords and things like that that we've been working on. So, yes, in March we had a plan of what we thought we'd get to, its gone faster. We still in three years' time get back to growth, we don't know yet, we thought it was going to be a decline like that, it sort of dropped faster, can we hold it, I don't know, but we'll keep reporting out to you as much as we can as we go through that but its, you know, we're modelling and doing everything we know how in terms of other businesses that are online.

**Laurent HORRUT:** Just on that, what's the implication at that level of that high teens revenue decline for 12 as in what can you do, its fairly high fixed cost business also, I mean you're working hard obviously to readjust the cost base but what is it going to be at that level?

**David THODEY:** We're working hard on the cost base right now and we had a cost base that was a little bit inflated because we had all that back end work to do, so look, it falls through the bottom line so its more than we expected but we'll, you won't see it in the first half, it'll be in the second half you see it really flow through. So I mean you ...

**John STANHOPE:** Yeah, I mean, we're working on reducing the cost of fulfilment and it has been higher than we thought so you get better and better at it, but also there are productivity and support areas that you can move on fairly quickly. And then as you go into another year there are other areas that you can look at that you look at what you can do quickly first and so that's the process that we're going through right now.

**David THODEY:** Right, so you say you're still not clear about Asia? Okay. We are going to grow off the assets we have today primarily across the fixed core IP network, that's number one. CSL we have today its performing well, if anyone's going to knock on the door and offer me a lot of money, of course I'd look at it, but I don't think that's going to happen so we want to continue to maximise that business. The digital media businesses in China, as I said, some are not going well, some are going well. We've been trying to tidy them up because its just like that in China. So I'm not expecting to do a whole lot more in China in digital media if that's what you're asking me, that's not where I plan to be. But are

we building our points of presence off the core network into China, absolutely, there's a lot of traffic going in and out, you know, you've probably read something about India, we're back in India. All we're doing is three points of presence, it was a lot of media for not much investment, so don't get confused there. But it's off that core network, that's what we're good at doing, that's what we do well, I'm staying very close to the core. So I don't know how to be any clearer than that. We're growing in Asia now, we've got good top line growth and good bottom line growth. So we'll continue to do that and if it makes sense ...

**QUESTION:** Its about maximising existing assets.

**David THODEY:** Exactly. I'm not about to go and do anything else significant out there. So thank you. But those assets are significant. Those assets are significant. Yes, so what was the next one? Smartphone.

**Gordon BALLANTYNE:** Just in terms of last year and we see that continuing this year, we're actually seeing a gentle resurgence in fixed broad broadband fuelled by products like T Box, T Hub. And there's a little bit of a trade off in the market between mobile broadband and post pay activity and fixed broadband. If we look at our trajectories in the mobile broadband space on the post pay side it's been a bit softer than we've expected and that's come down to, you know, customers when they're enjoying IPTV at home actually want the benefit of - the quality of service on the fixed line.

So we're seeing a gentle shift and good growth in fixed broadband. And as I said, we grew in sales last year of 9%. And we grew revenue as well. But obviously over time, you know, we still have - when people decide to move, you know, it was 11, 12% of households are going mobile and that trend continues. But actually I'm quite encouraged by the trajectory on the fixed broadband side of the business.

And we're seeing more customers now using mobile broadband as complimentary to their fixed offering as opposed to a full out and out replacement, given the quality of service they want delivered across our IP network. So I think that's really - it will really encourage, it's stemming that decline but clearly, the decline continues just for the macro trends we see in the industry as well.

**Laurent HORRUT:** And have you noticed anything in terms of PSTN, ARPU and the mix of it, you know, the calling now, ARPU has been going up by 4 or 5%.

**Gordon BALLANTYNE:** Yeah, yield still is challenged, as you would expect and those trends form part of our overall forecast.

**Laurent HORRUT:** Right, thank you.

**Ben SPINCER:** We've got about 10 minutes left, so we've got time for Mark and certainly, Fraser and Andrew over here.

**Mark BLACKWELL:** Thanks. Mark Blackwell, Morgan Stanley. Three seems a popular number, so I'll choose three as well. The first one's easy. Reporting of Sensis, I noticed we're sort of in mind of the reorganisation at the executive level, are you going to continue to report it separately as it has been in the past or will that change?

**David THODEY:** We'll report that portfolio and I think we'll pull Sensis out as well. I think we've got to as we go through this change. We want to give as much visibility as we can.

**Mark BLACKWELL:** All right, good. Secondly, I don't want to be sort of the cloud on the silver lining in a way but most of the mobile share that Telstra's gained has been at the expense of Vodafone, it seems. Are you worried at all that you've pushed them too hard? That maybe the response might be a bit - might start to get irrational if you take too much more share out of them in the mobile space?

**Gordon BALLANTYNE:** Was there a third question? Response might be a bit - might start to get irrational if you take too much more share out of them in the mobile space?

**Mark BLACKWELL:** There is a third question. Finally, on just sort of these bright colours around, I'm thinking about growth. I'm wondering if - you did mention earlier on, David, mobile commerce, I'm wondering if that's an area you're looking at for growth. Something you might think of as a product Telstra might do or do you think that's more in the realm of the banks?

**David THODEY:** Okay. Do you want to take where the shares - you're supposition is partially right, not completely, yeah.

**Gordon BALLANTYNE:** Yeah, so if we think about the current products and offers we have in the market, we still demand, given our network advantage, they range from 15 to 50 % premium on where others place. So we have not encouraged, you know, a pricing behaviour in the market and that's not the intent. We talked about last year and I did hear some reports that, you know, the reason why we gained all these customers was the woes of Vodafone, which you know, it's good in a three player market that we have three very robust operators who deliver, you know, quality of service to all of our customers within the industry.

And I think if you look at the profile of last year, we took most of our volume in the first half and that was before we had any network issues or we heard about competitors having any network issues in the market place. So we still maintain our premium. I mean I think it's just recognised in Australia, which is a lovely place to be, that we just have the world's best network. And, you know, our challenge is just trying to manage volume because, you know, last year we were encouraged and a little bit surprised by the size and the scale of the growth. And that momentum continues in the market as well.

In terms of irrational behaviour, in a three player market, no one's out, no one wants that irrational behaviour because the core value in the industry. You know, our plan is to continue to charge a premium, to continue to bank on the wonderful network assets we have and customers will choose with their feet whether they decide Telstra give them the quality of service we deliver and the quality of network that we have.

**David THODEY:** So, you know, to come back to Gordon's point. I mean this myth that we were pricing irrationally is just not true. We were way out of the market, we had 50% premiums in the market before. It was just stupid. All we've done is just to get back to what is our normal premium, so I totally reject that we've been anything there and ...

**Mark BLACKWELL:** Sorry, I didn't mean to suggest that you were pricing irrationally.

**David THODEY:** That's right, that's good.

**Mark BLACKWELL:** That Vodafone might price irrationally.

**David THODEY:** No, no. I was going to come onto that. But I think that for all of us, you know, it's about return to shareholders, return on whether you're back to the UK or - there's only so much you can do. And we think that, well, yes, we were in market and one of our company's had a difficult time of it. Yes, we made some ground but we're seeing, you know, even with the iPhone 4S, we're seeing customers come to us from all operators, not just the one you're referring to.

So we wish we could get more iPhone 4S, we'd really like to have it. So just last one is the - so in terms of mobile commerce, mobile payments, yeah, look, we've done a lot of work there. The big trick is where do you make money? Where does the operator make money? We definitely think we should be a facilitator. We've got some projects going, we did a project seven years ago with NAB with Near Field Communications. It's still to me unclear where if there's a pot of gold for the operator but definitely - there's some money there and we will be a key part of that system, so we're talking to all the people you'd expect us to be talking to, local banks and global providers in this area at the moment.

**Fraser MCLEISH:** Thanks, Fraser McLeish from RBS. Just a couple, please. Just on following up on the mobile pricing point. Can you maybe talk a wee bit specifically about handset subsidies? They look like they've maybe reduced a little bit sort of earlier in the year and they've sort of - with the iPhone 4 they've gone up again. That sort of key area of competition, pricing competition, how are you thinking about that? Is there another step up we should be expecting in handset subsidies? That's my first one.

**David THODEY:** Yeah, do you want to do the second one and then ...

**Fraser MCLEISH:** Okay, sorry. Second one is just around NBN and sort of cost outgoing forward. Obviously as you're further into your planning there, you know, when you're actually shutting down the copper network, are you going to see material levels of operating costs come out the business?

**David THODEY:** Do you want to take the one on subsidy? Do you want to actually talk about it because some of that's driven by some of the suppliers we deal with and so do you want to talk ...

**Gordon BALLANTYNE:** Well, actually just looking at the year, now one of the things that we've really shifted, you know, look at the absolute subsidy number, is a real focus on how we're commercially steering the business. We're finding customers are staying longer and not necessarily recontracting at the frequency they have been in the past. You know, one of the things we mentioned that the last investor day was that the rate of recontracting has almost halved on the base over the last 18 months, which actually can amass some of the really positive economics that we're seeing pull through in terms of the absolute level of subsidy.

You know, we'd like to spend less on subsidy and we see, you know, a significant shift to SIM only plans, BYO plans. We're taking advantage of the fact that over the two years from the original - the first launch of the iPhone and there's a lot of customers coming out of contract who just want to bring their iPhone and actually shift to a better network with a better kind of plan at the right value.

So I think that we're really managing that kind of subsidy envelope tightly and we're very focused on actually significantly reducing the overall transactional events because with every transactional event there's a cost and customers are, as you say, customer experience and satisfaction is improving while at the same time we're taking absolute volume out of the market. So it's quite a complex equation and all it's anchored around, you know, acquiring the most profitable customer and retaining our most profitable customers where in the past we've managed at a very aggregate level and that's just - we've put cost into the business as a result of that. And that's the discipline that we want to change as we steer the business in a more commercial way.

**David THODEY:** NBN cost out on the company, it's not significant in the next few years?

**John STANHOPE:** No, no. Well, we are going to report it and that's what I said to you because I know you all will have an interest in it but direct cost of operation and



maintenance of the copper, you know, so fault repair and lead in repair and cable down the street, distribution network is north of a half a billion a year. And when I say direct, obviously you have fault systems and IT costs of managing. I'm not counting that, I'm just - the straight line repair costs are north of half a billion dollars.

So, yeah, they will start to disappear but it's a 10 year period, so I don't want you to get too excited because it will take that sort of time.

**David THODEY:** Yeah, so next couple of years.

**John STANHOPE:** But as I said today, we will report that.

**David THODEY:** Do you want to mention anything?

**Ben SPINCER:** Andrew, take the last question here.

**Andrew ANAGNOSTELLIS:** Thanks. The lucky last. Andrew Anagnostellis Deutsche Bank. Just two questions. Firstly, on the media strategy, you've set up a new division but just looking at what's in there, it just seems it's the Sensis business, which has been discussed a lot today, a Foxtel business, which you don't actually manage and the rest of the other pieces there. Where's this business sort of going? You've mentioned it's a growth business. Earlier on you said you don't want to actually own the content a la Fairfax, which makes sense, but sort of what are you thinking about this business? You know, what are you actually actively managing? Where's it going?

The second question I had was on the NBN. Telstra's spoken a lot about the 11 billion benefit but it was only in the independent expert's report we saw the negative impact of actually losing your network and they put a number on it, I think close to 10 billion. You know, can you comment on, you know, how you're seeing the impact of the loss of wholesale revenue actually paying for access in terms of sort of quantifying it and how it perhaps might come out of the next few years? Thanks.

**David THODEY:** I mean the last ones sort of easy to answer. I mean as soon as someone comes into the market to build another network you saw the, you know, the value

of the company decline. I mean that's where ...

**John STANHOPE:** Sure. And the decommissioning costs per customer are derived from anticipated retail and wholesale revenue share loss. And so that's what that payment is. I'll use the word, is compensatory. I'm not sure about your comment about the 10 billion in the year.

**David THODEY:** I don't think it was actually in that report, was it?

**John STANHOPE:** No.

**Andrew ANAGNOSTELLIS:** No, the independent expert had a negative cost of ...

**David THODEY:** Yeah, why don't we pick it off line. But, yeah, look, anyone comes in and puts 40 billion into the market it's going to have an impact on us. But that was factored in, so when we looked at this as we are and we create value from there, so I'm not even sure of the relevance of the question. I can't change what governments do, even though I may wish to.

Yes, so coming back to the media portfolio. Yeah, it's a mixture of assets. But as it moves to a digital world, I think there's probably more synergies. But remember - remember what we do and people forget, so let's start, we carry a lot of video across the network and therein lies enormous differentiation. A la Verizon, Deutsche and others who are building out very sophisticated video distribution networks 'cause you're rendering content across multiple screen types. And whether you're YouTube or you're IPTV or any other content distributor, that becomes incredibly valuable as you go forward because if you're using YouTube, even with their stations and it's not a good experience, no one's going to go there.

So that's number 1, it's off the core capability. So we're not - everyone keeps on trying to make us like Fairfax or News, we're not. Never want to be, never want to go there. So that's number 1.

Number 2 is within the content of Bigpond, which we've had various content and portal plays. Yes, because of who we are we get access to some unique sporting content that can

differentiate your offer but are we going to go out there and create enormous amounts of content and get into editorial? No, that's no desire at all.

The Foxtel play helps us differentiate but you know, under the regulator, Foxtel distributes to many players a la the Austar and therefore, they can do a deal with Optus or anybody else as they go forward.

However, we work hard at it and we've used it to our advantage and therefore, it helps our core carriage capability and that's what we've been doing for a long time and that's why we've done very well in the bundling.

So these are all tied together. But the Foxtel relationship, yes, it's a 50% ownership. We don't have control but it's a growing relationship and we get access to that unique content. You can buy Foxtel channels on IPTV and it's wrong to think of just the pay TV versus IPTV. It's what people will pay for, that's why video on demand's so important. So all these are related.

Then you add Sensis, Sensis is moving from print to online and is there any ability to differentiate? I don't know at the moment but we're going to look at it but I think our first priority is to work through this transition with Sensis and go there. But do not compare us with Fairfax or News. You've got to think of us very differently and I've learnt that in the last couple of years. If you try to become another media - that's not what our business is. We're in the telecommunications industry, that's where we make most of our money and we've got this augmentation that we can do. And were going to get greater clarity on it and move it forward. That's what we're doing. Okay.

**Ben SPINCER:** Thanks, Andrew. We're going to close up now. You'll probably see those who were attentive, we've just lodged some presentations for this afternoon's breakout sessions with the ASX. They're going to be available as you leave the room.

I've been asked to please get you to leave the room quickly, so we can commence a media Q&A session promptly as well. As I said, well be starting the breakout sessions at promptly at 12.30. Those with a blue badge will be starting with the network applications and services, I think. And those with the green badges in mobiles to start off. Thanks very much.

END OF TRANSCRIPT