



TELSTRA INVESTOR DAY 2 MAY 2016

ANDREW PENN, CEO



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AGENDA

1	Becoming a world class technology company	Andrew Penn
2	Capital Management	Warwick Bray
3	Q&A	Andrew Penn, Warwick Bray
4	Network Resilience	Kate McKenzie
5	Q&A	Andrew Penn, Kate McKenzie, David Williams

OUR PURPOSE, VISION AND STRATEGY

Purpose: To create a brilliant connected future for everyone

Vision: To be a world class technology company that empowers people to connect

Strategy: Improve customer advocacy



Drive value & growth from the core



Build new growth businesses



STRATEGIC PILLAR: IMPROVE CUSTOMER ADVOCACY

Strategy:

Improve customer advocacy



Drive value & growth from the core



Build new growth businesses



Personalised and easy to access forms of customer service

- Over 2.6 million active 24x7 users
- Delivered 5.2 million personalised Check-In communications since 1 July 2015
- New Data Usage Information tools helping 16,000 customers better understand their data usage since January

Simplifying and digitalising the connection experience

- Average mobile activation time reduced to 7 minutes from 43 minutes through process improvements
- New nbn self install kits

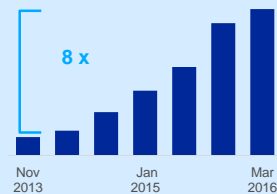
Value for money

- *Best Bundle Ever*
- Double data on Business Broadband, Digital Office Technology and BizEssentials plans



Helping our customers connect their technology through Telstra Platinum

Telstra Platinum SIOs



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IT'S HOW WE CONNECT

STRATEGIC PILLAR: DRIVE VALUE AND GROWTH FROM THE CORE

Strategy:

Improve customer advocacy



Drive value & growth from the core



Build new growth businesses



Connecting more customers through Telstra Air

- Telstra Air now included in new personal mobile and home broadband plans
- Over 650,000 customers and more than 300,000 hotspots across Australia

Supporting nbn in building the nbn™ network

- \$1.6 billion HFC delivery agreement
- Network operations and maintenance service provider

Network leadership is a priority

- Our 4G network will reach 98% of the population by 30 June 2016 and 99% by 30 June 2017
- Formed global alliance with Verizon, kt and EE to promote and advance LTE-B technology







Accelerating our productivity programme

- Untangle complexity
- Simplify processes and systems





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IT'S HOW WE CONNECT

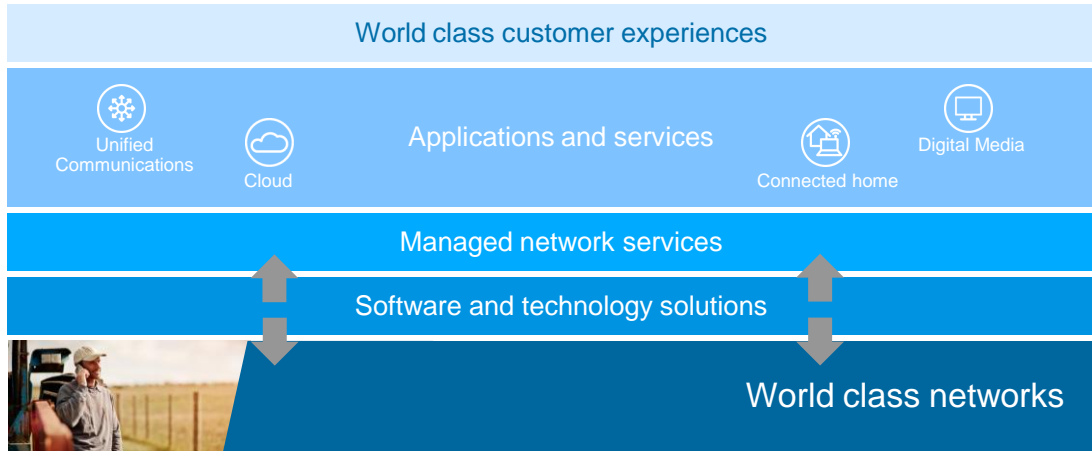
STRATEGIC PILLAR: BUILD NEW GROWTH BUSINESSES

Strategy:	Improve customer advocacy 	Drive value & growth from the core 	Build new growth businesses 
Building the Telstra brand in Asia <ul style="list-style-type: none"> Strengthened capabilities through Pacnet acquisition Combined network represents 30% of all intra-Asia lit submarine capacity 			Connecting the healthcare system through Telstra Health <ul style="list-style-type: none"> Solutions in primary, aged and residential care, hospitals, radiology, pharmacy, health analytics and telemedicine
Telstra Software Group <ul style="list-style-type: none"> Ooyala now an official Media Solutions Partner for Facebook Live enabling broadcasters to syndicate content to Facebook Ooyala Live solution to broadcast National Basketball League and National Rugby League 			Private cloud services launched by telkomtelstra <ul style="list-style-type: none"> Securing business critical applications by combining Telstra's technological expertise and Telkom Indonesia's network capability and infrastructure

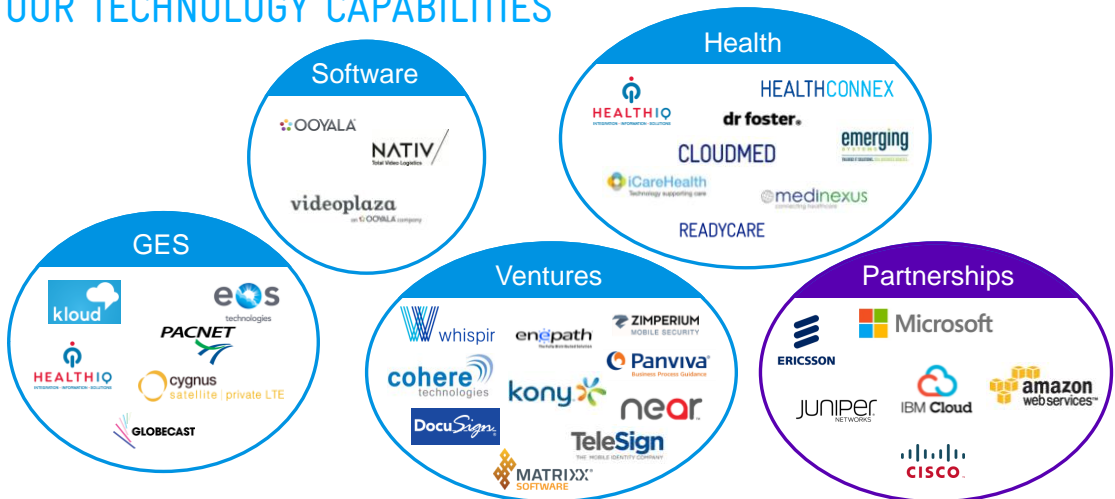
BECOMING A WORLD CLASS TECHNOLOGY COMPANY

	World class customer experiences
World class technology	
	World class networks
World class people	

TECHNOLOGY CREATES AN OPPORTUNITY FOR GROWTH BY LEVERAGING OUR NETWORK



OUR INVESTMENTS AND PARTNERSHIPS DEVELOP AND EXPAND OUR TECHNOLOGY CAPABILITIES



SUMMARY

Our strategy remains the same

Our customers remain at the heart of everything we do

We are lifting our aspirations to be a world class technology company

Technology creates an opportunity for growth by leveraging our network

Our investments and partnerships develop and expand our technological capabilities

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IT'S HOW
WE CONNECT 

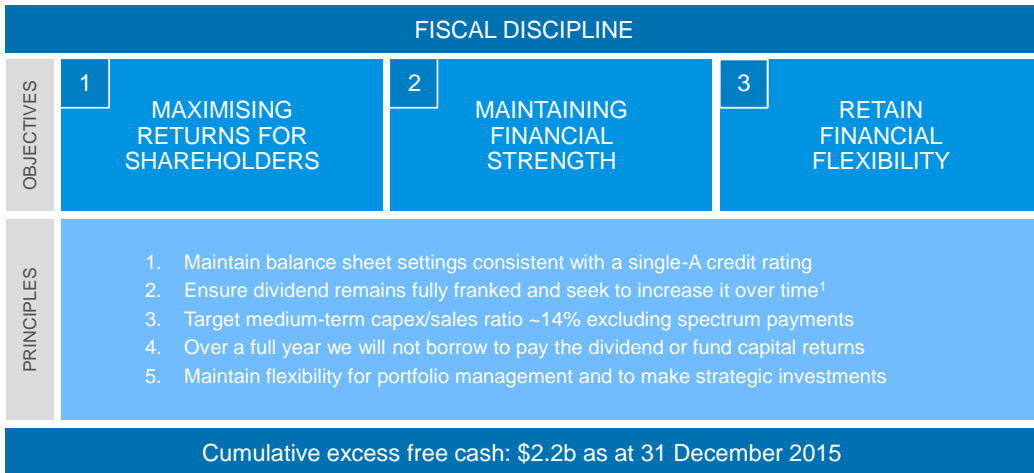


TELSTRA INVESTOR DAY 2 MAY 2016

WARWICK BRAY, CFO

IT'S HOW
WE CONNECT 

CAPITAL MANAGEMENT FRAMEWORK



WE HAVE A STRONG BALANCE SHEET

PRINCIPLE 1

	1H15	FY15	1H16
Gross debt ¹	\$14.8b	\$15.0b	\$16.2b
Liquidity ²	\$1.7b	\$1.4b	\$2.2b
Net debt	\$13.1b	\$13.6b	\$14.1b
Average gross borrowing costs ³	5.9%	5.8%	5.6%
Average debt maturity (years)	4.6	5.0	4.6

Financial parameters more conservative than Comfort Zones

Recent debt raising reaffirms the quality of Telstra's financial profile, including strong balance sheet and single-A credit rating

We have the capacity for continued, measured and balanced deployment of capital

Announced capital management program of at least \$1.5 billion with details at FY16 result

Financial parameters	Comfort Zones	1H15	FY15	1H16
Debt servicing	1.3 – 1.8x	1.2x	1.3x	1.3x
Gearing	50% to 70%	49.0%	48.3%	48.7%
Interest cover	>7x	14.9x	15.0x	14.4x

1. Represents position after hedging based on accounting carrying values. Gross debt comprises borrowings and derivatives
 2. Liquidity refers to Cash and Cash Equivalents
 3. Represents gross interest cost on gross debt



ORDINARY DIVIDENDS ARE BASED ON THE BOARD'S ASSESSMENT OF LONG TERM SUSTAINABLE EARNINGS



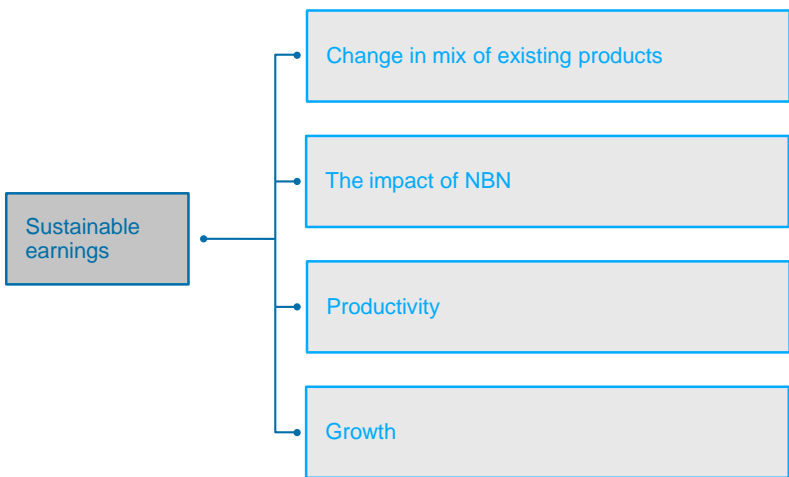
We are focused on the long-term “exit run rate” of earnings post NBN rollout

- Sustainable earnings are not the same as earnings less:
- PSAA
 - One off costs of migration

In a particular year, ordinary dividends may be >100% of earnings ex-PSAA



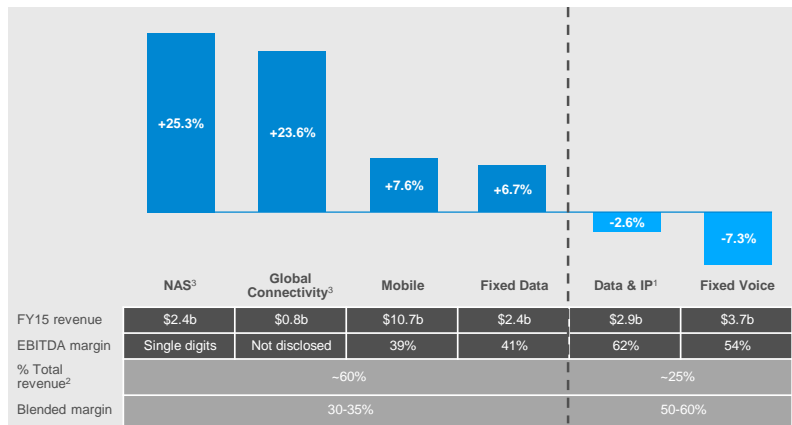
SUSTAINABLE EARNINGS WILL BE INFLUENCED BY FOUR MAIN FACTORS



OUR ECONOMICS ARE INFLUENCED BY THE MIX CHANGE IN OUR MAJOR PRODUCTS

PRINCIPLE 2

Revenue CAGR FY13 – FY15



1. Data & IP margin and revenue on domestic Data & IP
 2. Other revenue not included ~15%
 3. NAS and Global Connectivity include contribution from M&A



THE NBN HAS ONE-OFF AND RECURRING IMPACTS

PRINCIPLE 2

	One-off	Recurring
Definitive Agreements (DA)	<ul style="list-style-type: none"> + PSAA and Ownership receipts (~\$4b NPV at June-2010) 	<ul style="list-style-type: none"> + ISA (~\$5b NPV at June-2010) + Government receipts incl. TUSOPA
As retail service provider and NBN transition impacts	<ul style="list-style-type: none"> - NBN connection/transition costs 	<ul style="list-style-type: none"> - New NBN access costs (CVC/AVC) + Reduction in existing access costs - Loss of wholesale revenues
Commercial Works	<ul style="list-style-type: none"> + Upgrade of HFC + Network Planning and Design announced Dec-14 (\$390m over 4 years) + Joint Deployment Works Contract for 1000 FTTN nodes + Copper Sub-loop Agreement (CSLA)¹ + HFC Delivery Agreement (\$1.6b) 	<ul style="list-style-type: none"> + Operate and Maintain Master Agreement (OMMA)¹

Long term net recurring EBITDA impact of negative \$2-3 billion


Negative effects of NBN rollout largely stabilise at end of migration

1. These two separate contracts announced in Dec-2015 are expected to deliver combined revenue of \$80m in the first year



WE ARE RAISING THE BAR ON CUSTOMER ADVOCACY AND PRODUCTIVITY

PRINCIPLE 2

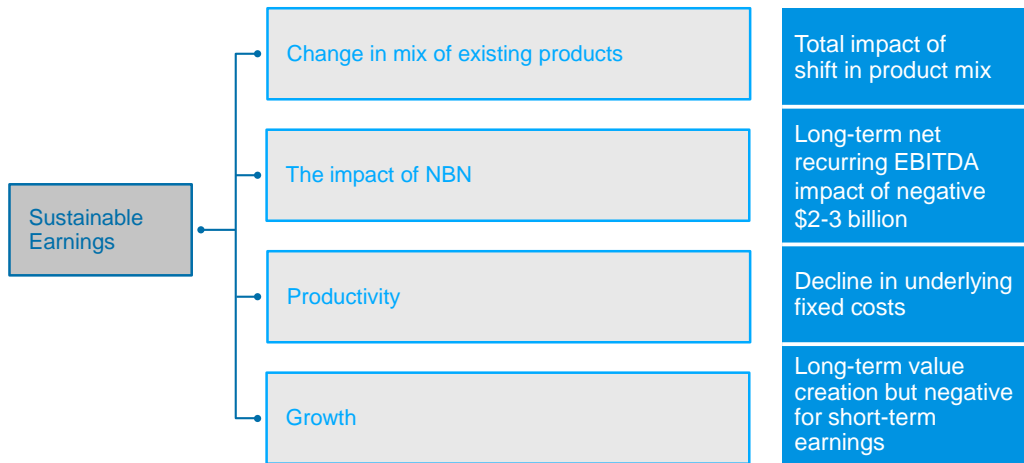
Last 5 years	Now
Over the last 5 years we have achieved annual gross productivity of \$1 billion, including more than \$500 million each year through reduced expenses and cost improvement	<p>Continue with previous progress and...</p>  <ol style="list-style-type: none"> Customer advocacy led productivity including: <ul style="list-style-type: none"> Digitalisation Simplification Getting our processes right first time This will lead to increased productivity and better customer outcomes We are managing costs against a “net” target. That is, productivity that you can see in our financial accounts <ul style="list-style-type: none"> We are targeting an annual core “fixed” cost reduction Accountability and incentives for productivity devolved to business units and line managers

BETTER CUSTOMER OUTCOMES LEAD TO COST REDUCTIONS

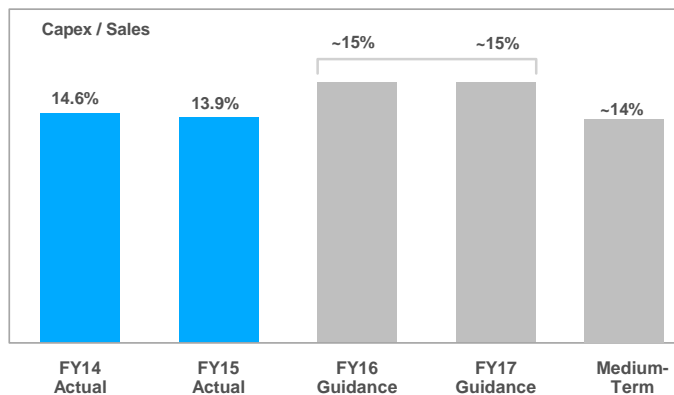
PRINCIPLE 2

Productivity Theme	Focus	Example initiatives: What has improved for customer?	Outcomes
Improve customer interactions through digitisation and simplification	Reduce NBN cost to connect	<ul style="list-style-type: none"> Reduced pre-connection calls to NBN customers by combining two calls into one Increased the number of NBN orders fully captured by front line sales staff to minimise subsequent duplication 	<ul style="list-style-type: none"> 85% of orders now fully captured by front of house 75% reduction in order entry time YTD
	Customer self care	<ul style="list-style-type: none"> Expanded the range of self service tools across fixed products so that customers can be guided through an online resolution to common problems 	<ul style="list-style-type: none"> Over 300k avoided customer calls and truck rolls YTD
	Improve first call resolution	<ul style="list-style-type: none"> Made it easier for contact centre consultants to solve customer queries through simplified tools and processes 	<ul style="list-style-type: none"> Improved first call resolution in assurance contact centres to 72% Positively impacted 72k customers YTD
Enabling the future IT network	Proactive assurance identification	<ul style="list-style-type: none"> Proactively identified and remediated unstable ADSL lines prior to customers contacting us about issues 	<ul style="list-style-type: none"> More consistent speed for 1.6m ADSL customers Over 225k avoided customer calls and truck rolls YTD

SUMMARY OF SUSTAINABLE EARNINGS DRIVERS



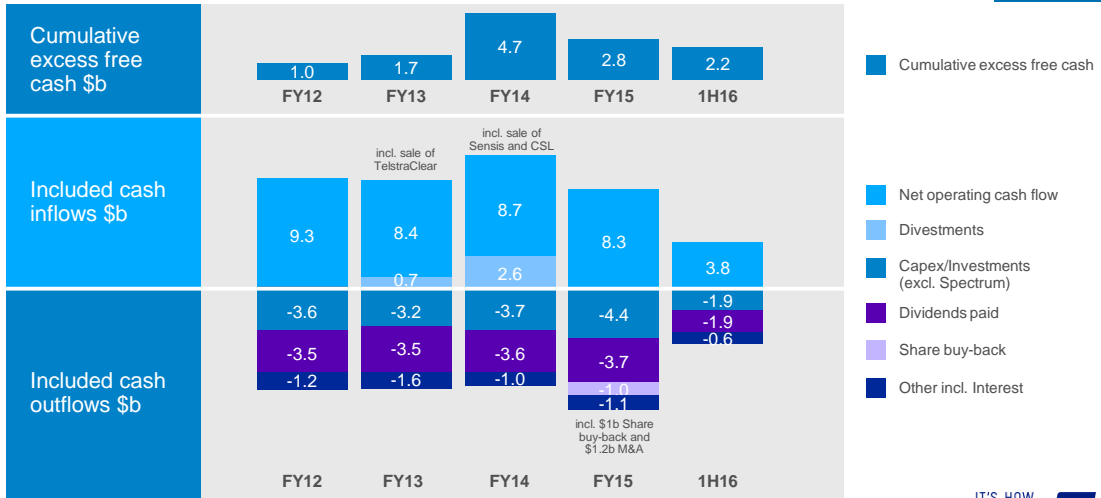
TARGET MEDIUM TERM CAPEX/SALES RATIO ~14% EXCLUDING SPECTRUM PAYMENTS



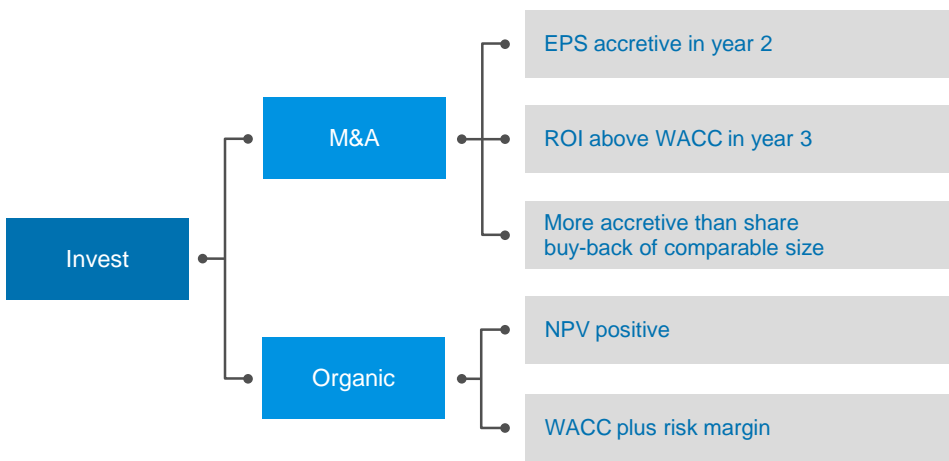
We expect lower capital intensity longer term, reflecting:

- Expected shift in product mix to lower margin and less capital intensive products
- The transition of ownership of the last mile to NBN

CUMULATIVE EXCESS FREE CASH PROVIDES FLEXIBILITY

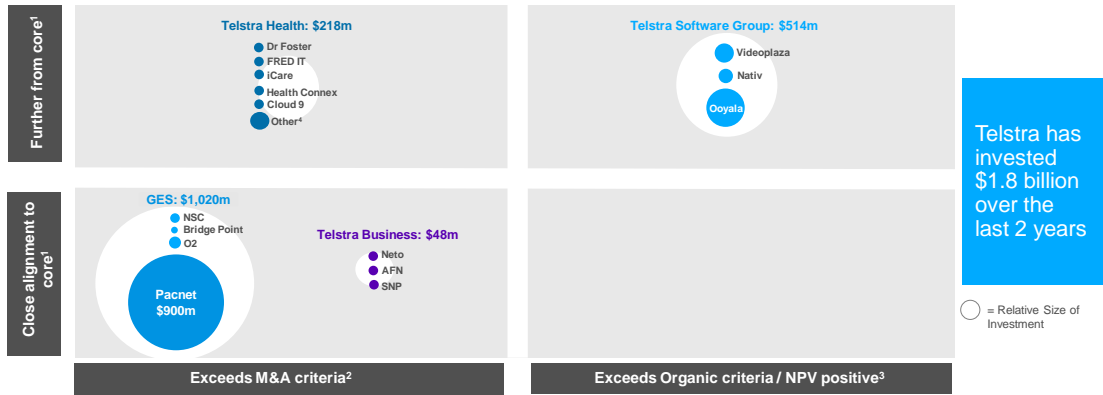


INVESTMENT GUIDELINES – NO CHANGE



MAJORITY OF INVESTMENTS BY VALUE HAVE BEEN CLOSE TO CORE AND ALL HAVE MET INVESTMENT CRITERIA

PRINCIPLE 5



Telstra has invested \$1.8 billion over the last 2 years

1. Based on if acquired company has overlapping customers, geographic focus, capabilities or products/ services with Telstra's core business
 2. Acquisition was forecast to be EPS accretive in Y2, ROIC>WACC and more accretive than a share buy back of a similar size
 3. Acquisition was forecast to be NPV positive based on WACC plus a risk margin
 4. Includes EOS, Health IQ, Emerging Systems, ReadyCare, Medinexus and Orion



INTERNATIONAL CAPABILITIES FROM INVESTMENTS IN THE CORE

PRINCIPLE 5

Leading international connectivity provider in NE Asia

The largest foreign JV VPN provider in China (the rate of growth has almost doubled post Telstra ownership)

30% intra-Asia LIT cable capacity

Key partner for the major OTT companies coming to Asia and China

Two major data centres in Tianjin and Chongqing

Most lit cable capacity of any foreign provider into Korea, Taiwan & Philippines

2,000+ talent outside of Australia to supercharge the international growth agenda in GES, international now > 20% of GES revenues

We are investing to strengthen our position in NE Asia:

- i) Connecting our 3 cable systems into Korea
- ii) Building terrestrial cable connecting our cable systems landing in north and south Taiwan

Customers have responded strongly to the combination of Pacnet network & SDN, with Telstra brand, product portfolio and network expertise. Average TCV of deals post Pacnet has increased dramatically

First Sino-foreign telecoms provider with IPVPN, IDC, Internet Access and ICP licences in China

Gartner Report - Number 1 provider of high capacity & low latency networks in Asia



WE WILL CONTINUE TO TAKE A BALANCED APPROACH TOWARDS M&A

PRINCIPLE 5



We expect the most significant investments to be closely aligned to our core

We will continue to pursue external opportunities where our existing investment guidelines are met, including M&A that is better than a share buyback of a comparable size



When will also continue to invest in other assets that:

- Provide unique insights, assets or capability
- Provide technology and partnerships to strengthen capabilities and innovation



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IT'S HOW WE CONNECT 

TELSTRA VENTURES HAS INVESTED AROUND \$210M AS AT DECEMBER 2015

PRINCIPLE 5

3,500 investment opportunities reviewed resulting in **29** investments

Companies generated **\$1b+** of revenue in 2015 growing at **50%+ YoY**

Realised **\$64m** against a cost of \$33m from 5 external liquidity events

Primary focus is on Telstra's **growth and innovation in the core**:

- Creating new revenue streams in the core and beyond
- Broadening capabilities and cost reduction
- Investment returns

We are looking for **world class innovation**: our portfolio companies represent global leaders in their fields

Our **investment strategy** consists of minority stake investments in later stage, anticipated high growth companies

Our investments typically **leverage Telstra's assets**

We have a **global outlook** with a bias towards Australia, USA and Asia

IRR on realisation of ~50%





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IT'S HOW WE CONNECT 

VENTURES PROVIDING VALUE TO THE CORE BUSINESS

PRINCIPLE 5

Examples of our Ventures investments and how they have contributed to our core business:

Investment	What do they do?	Value added to core business
 Since December 2012	Whispir is a cloud based software provider that helps businesses manage complex communications challenges posed by planned and unplanned events such as emergencies, stock exchange disclosures, and IT disaster recovery	Telstra and Whispir have successfully partnered to win a number of new customers in Asia
 Since May 2014	MATRIXX gives Communications Service Providers instant visibility, intelligence and control of services with real time rating and charging solutions	MATRIXX offers a next generation real-time billing platform which is now being used by Telstra to improve customer service for Telstra's mobile customers
 Since September 2014	DocuSign is a world leader in digital signatures	Telstra and DocuSign have successfully implemented this solution internally within Telstra and also for a number of Telstra's enterprise customers
 Since March 2015	Cohere Technologies is developing the 5G mobile phone standard. Cohere Technologies's OTFS ¹ waveform was recently added to the list of waveforms to be evaluated by the 3GPP standards body.	Cohere Technologies is working closely with Telstra on the next 5G standard providing Telstra with better insight into the 5G standard process and technology evolution.



CAPITAL MANAGEMENT FRAMEWORK – SUMMARY

We have a balanced approach to capital allocation and capital management

We will retain a strong balance sheet post capital management program of at least \$1.5 billion to commence in the first half of the 2017 financial year¹

Ensure dividend remains fully franked and seek to increase it over time

We have a clear strategy in the transition to NBN including an accelerated productivity program. Cost reduction targeted where can deliver better customer outcomes

Investment in our network remains a key competitive advantage, delivering better experiences for customers

We expect most significant investments to be closely aligned to our core but we will continue to invest in new capabilities as required

1. The capital management program will be in addition to the ordinary dividend, with specific details to be made available at Telstra's full year results presentation on 11 August 2016. Telstra is currently examining various ways to return capital to shareholders with the exact nature, amount and timing dependent upon market conditions and all necessary regulatory approvals.





Q & A



NOW ON iPhone, iPad AND ANDROID



TELSTRA INVESTOR DAY 2 MAY 2016

KATE MCKENZIE, COO



OUR MOBILE NETWORK IS AUSTRALIA'S BEST



Australia's largest

- Our 4G network will reach 98% of the population by June 2016 and 99% by June 2017



Australia's fastest

- Based on a national average of 3G and 4G speeds



Making it better

- Over the three years to June 2017 we will have invested more than \$5 billion

NETWORK REVIEW: PROCESS

KATE MCKENZIE

Chief Operating Officer, Telstra

JUNIPER
NETWORKS


CISCO


ERICSSON



DAVID WILLIAMS

Executive Consultant, Tech Mahindra

NETWORK REVIEW: ACTIONS

01

Identified and addressed the root causes of the disruptions

02

Increase investment in world leading network monitoring and tools
- \$25 million

03

Improve network recovery time for customers to be world class
- \$25 million

LEADING THE MARKET IN MOBILE INNOVATION

2015

TWO WORLD-FIRST
MOBILE SPEED MILESTONES USING
LTE-ADVANCED CAPABILITIES



AUSTRALIA'S FIRST
VOICE OVER LTE SERVICE

2016

WORKING TOWARDS
1GBPS
SPEEDS IN SYDNEY,
MELBOURNE &
BRISBANE CBDs



VOICE
OVER WIFI
AND VIDEO
OVER LTE

**NEXT
GENERATION**
STANDARDS IN IOT WITH
SUPPORT OF THE CAT 1
STANDARD

PLANS FOR
CAT-M AND
NB-IOT
SUPPORT

BEYOND

FUTURE READY NETWORK
FOR MEDIA AND CONTENT, FOCUSING
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