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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra2022 – transcript

I attach a copy of the transcript from the briefing held on Wednesday 20 June 2018, in relation to Telstra's Strategy update, for release to the market.

Yours faithfully

Sue Laver
Company Secretary

MR N. BURLEY: Good morning and welcome to Telstra's Strategy Update. My name is Nathan Burley of Telstra Investor Relations. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first people. Today, I would therefore like to acknowledge that we meet on the traditional lands of the Gadigal people of the Eora Nation and pay my respects to elders both past and present. All documents from today's release are available online or our investor centre. Before Andy comes onstage, we will have a short video.

VIDEO SHOWN

MR A. PENN: Well, good morning, everybody, and welcome to our investor briefing. For 100 years, Telstra has been at the forefront of connecting Australia and Australians to each other and to the world. There have been very significant moments in our history, many that have shaped who we are but also many that have helped create the fabric of our nation. From the beginning in the late 1800s with the first overland telegraph, we have connected people. Firstly, with fixed lines, then with mobile, then to the internet and now we are connecting things. And in that time, we have confronted many challenges. It is clear today that we are at another important point in our history. And at moments like this, critical inflection points, we have a choice how to respond.

As Telstra has always done, we're choosing to lead. Today, we are outlining a new strategy for Telstra, Telstra2022, because this is the year in which the nbn will be rolled out, 5G will be at scale and the Internet of Things will be pervasive in our homes, in our businesses and in our communities. This strategy is built on the foundation of Telstra being the undisputed leader in Australian telecommunications with unrivalled and trusted consumer and enterprise relationships built over more than a century. We have state of the art assets, expansive scale and a global network footprint. We have a customer base that continues to grow, a strong enterprise business, the best infrastructure in the country and a strong balance sheet. And we never take these advantages for granted.

The strategy is also built on the critical strategic investments that we have been making through our \$3 billion investment program that we laid out for the market a little over 18 months ago. Without these investments, what we're announcing today would just not be possible. We will simplify our products and our services and our operations. We will improve customer experience and reduce our cost base further. We intend to transform the nature of telecommunication products and services and remove pain points and frustrations that have annoyed Australians for so long. I know that you may feel that we have said this before, and it is true.

We have been transforming the business but at the same time managing our existing legacy and established profit pools. It is difficult to do both, as many telecommunication companies around the world have found. But our legacy is now holding us back. It is time to take a bolder step and leave the past behind. We're at a tipping point. A moment in time where we must be more ambitious to meet the challenges head-on. For Telstra, this means that we need to be more prepared to disrupt ourselves than ever before. And that is what our Telstra2022 strategy is all about.

The telecommunications industry is going through a very dynamic and challenging time, probably the most significant in decades, if not its history. And while many of the dynamics that are playing out today in the market were predictable, it is their intensity and depth of impact that is accelerating our need for change. The origins of many of these challenges point back to the nbn. We are no longer the wholesale fixed line provider in Australia and ultimately we lose our legacy wholesale business. Additionally, nbn is driving a doubling of wholesale prices. And Telstra and the other industry participants are facing a fixed line market where reseller margins are rapidly going to zero. This has also led to increased competition in mobiles and the entrance of a fourth operator. I want to acknowledge also, though, that it has been a challenging time for our investors. And we have listened carefully to your feedback.

Today, we will demonstrate how our strategy addresses the market challenges, and we are confident that the plans that we have been working on over the last 12 months will deliver a radically different Telstra. Through this strategy, we will reduce the number of Consumer and Small Business plans from 1800 to 20. We will also migrate all of these plans and 50 per cent of Enterprise plans to completely new technology stacks within three years and leave the legacy behind. We will establish a standalone infrastructure business unit to drive improved performance and create optionality for the future, including a potential demerger or the entry of a strategic investor post the roll out of the nbn.

We will eliminate the need for one-third of customer service calls within two years and two-thirds within four years. We will lead in all key industry surveys for network performance. We will increase our productivity target by a further \$1 billion to \$2.5 billion. And we intend to monetise up to \$2 billion in assets over the next 24 months to strengthen the balance sheet. These are just some of the benefits from the program, and we will be reporting these, and key deliverables and milestones, along the way.

Our strategy has four pillars, four pillars that will be the priority of our business over the next three years: radically simplifying our product offerings, eliminating customer pain points and creating all digital experiences; establishing a standalone infrastructure business unit to drive performance and set up optionality post the rollout of the nbn; greatly simplifying our structure and ways of working to empower our people and serve our customers; and, finally, delivering industry-leading cost reduction programs and portfolio management. These four pillars are underpinned by two critical enabling capabilities that we have been investing in through our strategic investment program over the last two years. And I would like to underline again, that the strategies we're announcing today would just not be possible without these investments. Firstly, in new digital platforms and, secondly, Australia's largest, fastest, smartest, safest and most reliable next generation network.

Our strategy also has six goals with tangible and clear milestones which we will hold ourselves accountable to and that will provide transparency of our journey along the way. They cover customer experience, simplifying our business, network superiority, our people, cost improvements and strengthening our balance sheet. The strategy will deliver benefits for all key stakeholders, for our customers, for our

shareholders, and for our people, and it will ensure, most importantly, that Telstra remains Australia's premium and most trusted brand in telecommunications.

In making these changes, we are acutely aware of the role that we play, also, in connecting Australians and the investment and technology contribution we make to the broader community, to regional Australians, and to serving the needs of our vulnerable customers. Australia needs a strong Telstra contributing to the broader national economy. So let me reassure you that Telstra's longstanding commitment to regional Australia is unwavering. Only last year we announced we would spend up to an additional \$1 billion in regional Australia with our partners over five years, including delivery of more than 650 sites under the Federal Government's Mobile Blackspot Program. This will continue.

The changes we are making are designed to set us up to continue to make strong contributions to communities and economies right the way across the country and in the long run. Today, you're going to hear a lot more about our strategy from the team. You will hear from Vicki and Brendon in relation to our new approach to customers. You will hear from Will in relation to our infrastructure business, Alex in relation to our structure and operating model, Robyn in relation to our enabling capabilities and Warwick in relation to our productivity initiatives and the other financial implications from the strategy.

We propose to present the full strategy to you before opening for Q and A at the end of the morning. We will take a short break at 10.30, during which I will invite you to view a number of showcases that we have set up in the CIC, which is the area that you passed through on your way in this morning. These address, respectively, the state of technology developments in 5G today, our progress in relation to digitising the business, how we are working with businesses on the Internet of Things opportunities, and how we are partnering and innovating.

Before I hand over to the team, however, I would like to make a few extra comments myself in relation to the strategy that we're announcing today. As I mentioned in my opening, the strategy has four key pillars. The first pillar is to radically simplify our product offering and eliminate customer pain points. We will drive growth in our business by delivering the next generation of connected experiences for customers. We are creating simple, flexible ways for customers to choose the best value connectivity, devices and services for their household and business.

Our collective dependency today on connectivity is greater than it has ever been. And that is only going to increase in the future. At the same time, however, customers continue to be frustrated with the complexity of plans that telecommunication companies provide. They want them to be simple, easy and digital with certainty on what they are going to be charged. And as an industry, we have failed to deliver on this. It's not an easy challenge because today's telecommunications technology is complex. But this is the challenge we must meet. Customers will start to benefit from this simplified approach in a few weeks when we launch peace of mind data across a range of new mobile post-paid plans, making excess data charges a thing of the past.

Four other major product and service experiences will be progressively announced in the lead up to June 2019. Two years ago, we announced that we would increase our

capital investment in the business by up to \$3 billion over the three years to the 30th of June 2019 to build the capabilities that we would need for the future. Part of this investment has been in designing and building completely new technology stacks which will support the migration to a new world for our products and services for all of our customers. Robyn will talk to you more about the underlying digital capabilities later. But they will enable us to simplify our products to remove the customer pain point and deliver an effortless digital experience with simpler modular solutions.

For Consumer and Small Business, we expect to have all of our plans in market in this model on the new technology by 30 June 2019. We will then use the momentum in the business to gain scale. We will also then, systematically migrate from the existing customer legacy plans as they come to end of contract such that we anticipate that we will have all Consumer and Small Business customers and plans on the new products, on the new technology stacks, by the 30th of June 2021. This will deliver not only a much improved experience for our customers but massive simplicity to the business. And, as a consequence, we expect the number of plans to reduce from more than 1800 to just 20.

For Enterprise customers, we are already in the market with many elements of our new technology platform. This is delivering great new digital experiences today, such as the Telstra Programmable Network, our new unified communications product called Liberate, and Telstra Connect, which enables our Enterprise customers to manage their services directly and digitally. We plan to accelerate the migration to this new world for our Enterprise customers, reducing the number of plans by more than 50 per cent within three years. This will open up new opportunities from growth, which Brendon is going to talk about, in particular, a new demand, on-demand, subscription based communication solution for the mid-market that we will launch in the first half of 2019 financial year. And, secondly, significant opportunities in IoT, where we are already making very, very strong progress.

In making these changes, it is clear that we also have to change aspects of our economic model. Customers are frustrated with the many out of bundle charges that they experience today. They want simpler, easier to understand plans. And that means that we must leave some of the fees and charges that the industry historically charged, behind. This comes at considerable cost as, ultimately, we expect more than \$500 million of historic revenues to be eliminated from the business over the next three years. However, we believe this will be more than offset by the increase in the number of services per customer, as well as the benefits from improved customer experience and, critically, the massive simplicity that it will drive into our business. The bottom line is, the current model for telecommunication products and services in Australia today is unsustainable. And, as an industry, we must change. And as Telstra, we intend to lead the way.

Let me now turn to the second pillar of our strategy. Two years ago, we commenced a project to monetise the payments that we were receiving from the nbn for access to our fixed line infrastructure. Fundamentally, what stood behind this initiative was a belief that our telecommunications infrastructure assets were the most valuable in the country. With the increasingly important role that telecommunications is playing today, that value is only increasing. We have continued to look at ways in which we

can maximise this value and make it transparent to you while creating efficiency and optionality in the business.

We are announcing today that we will be establishing a wholly owned standalone infrastructure business unit with its own CEO, reporting to me. The business will comprise Telstra's high quality fixed network infrastructure assets, including data centres, domestic fibre, international subsea cables, exchanges, poles, ducts and pipes. It will provide access to these assets to Telstra through commercial arrangements to drive efficiency and transparency. It will comprise Telstra's commercial work activities and existing Telstra wholesale business. It will also continue to provide services to nbn co, and we anticipate that it will have an initial workforce of, approximately, 3000. It is expected that the business will control assets with a book value of approximately \$11 billion; generate annual revenues of approximately \$5.5 billion; and EBITDA of approximately \$3 billion.

The business will not include the mobile network assets, including spectrum, radio access equipment, towers and some elements of fibre backhaul. Because these will remain integrated to Telstra's core customer-focused segments to enable us to effectively manage our strategic differentiation in the market. This will also be very critical in our strategy for 5G where we intend to lead. The initial steps for the establishment of this business have already been undertaken. And we will be providing pro forma financials today and update these with our final year results for 2018. We will have full segment reporting audited in the financial year FY19 at the half-year results. And the whole business will be in full operation by the 30th of June 2019. By creating this new infrastructure focused business unit, we will better optimise and manage our valuable fixed infrastructure assets. It will also facilitate significant optionality for Telstra in the future, particularly in a post-nbn world.

Let me now turn to the third pillar of our strategy, which is to simplify our structure and create an agile environment for our people to better serve our customers. Our progress on this journey is already well advanced. We've been implementing new ways of working, such as agile, across the business. We've rolled out extensive use of Lean for process re-engineering, DevOps in IT, and human-centred design in marketing and product development. We propose to further accelerate the adoption of these methodologies which are the hallmarks of successful customer-centric companies. We're also in the process of making a number of organisational changes to our structure.

In addition to the creation of the new infrastructure business announced today, we are also establishing Telstra Global Business Services as a point of consolidation for all of our large-scale back of house processes and functions. Its focus is to build scale and reduce costs for large repeatable activities. We will make further announcements in the coming weeks regarding key executive appointments to these new activities, and other flow-on structural changes. We also intend to elevate our focus and capabilities in product development and management across the company. Collectively, these changes will enable us to flatten the organisational structure and improve the operating model of the company, and through these changes, we expect to reduce two to four levels of management across the company.

Telstra's strategy is premised on benefits to customers of market leading, simplified and digitised products and services for all Australians. This in turn will facilitate

significant simplification in the business and therefore further cost reductions, and this simplification is crucial to Telstra's competitiveness, and we expect it to lead to a 30 per cent reduction in our labour costs.

It will have an impact on jobs at Telstra. And whilst we do expect to create up to 1500 new roles within the company, overall we expect a net reduction of 8000 jobs over the next three years, including Telstra employees and contractors. I'm acutely conscious of the impact that the jobs reduction has on our people and on the broader society. I'm also acutely conscious of the uncertainty that this announcement creates for our people. But I need to be upfront and I need to be transparent about the scale of change that is needed at Telstra, and importantly what that means for our people.

Improving the service that we provide to our customers, improving the efficiency of the business, improving our competitiveness as a company means we have to reduce our costs. And at the same time, if we are to grow the company over the longer term, create new positions, new and exciting opportunities, we have to respond to the current market dynamics and their negative impact that the company is experiencing today. Recognising the very significant impact that these changes have on our people, we are also announcing transition programs, which will focus on supporting our people. The first is to assist people whose roles will no longer be required within the organisation, through enhanced out-placement support, including training, coaching, access to financial planning, post-employment and other support.

The second will provide support to employees to upskill and transition to new ways of working in a leaner, more agile Telstra. To support these transition programs, we intend to make available initial funding of up to \$50 million. It is our commitment to do everything that we possibly can to mitigate the impact on our people and provide them with as much support as possible during this transition, and critically, to provide them with transparency on the journey along the way, and the decisions that we are making.

Let me now turn to the final pillar of our strategy. Two years ago, we focused our new investments on products and services closer to the core of our business. Since then, we made decisions not to pursue international consumer opportunities such as in the Philippines, to sell our investment in Autohome for¹ \$2.4 billion, to restructure our investments in Foxtel, streamline our health business and completely restructure and exit underperforming aspects of the Ooyala business. We will continue to look for ways to streamline our business and improve efficiency and continue to look for ways to monetise assets. We commit to monetise up to \$2 billion in assets over the next two years to further strengthen the balance sheet.

In addition, the first three pillars of the strategy will enable us to increase our target for productivity by a further \$1 billion to \$2.5 billion in core non-DVC cost reduction by 2022. This equates to a reduction of almost 50 per cent in fixed costs after you take into account the impacts of inflation and growth. Through this work, we also expect our total costs to remain flat or declining, and critically what this means is that we will absorb the full weight of the nbn CVC/AVC charges that we incur in the migration to the nbn.

¹ Verbatim "at a profit of"

So these are the four pillars of our Telstra2022 strategy. I want to be clear that they would not have been possible without the investments that we have been making under our strategic investment program, in our new technology stacks, and also in building the capacity and capabilities under the network 2020 program. You'll hear more about these from Robyn later this morning.

In the meantime, I wanted to make some comments specifically in relation to 5G. The migration of the industry to 5G will be a profound technology transition. It's not just that we're migrating to a new G. It is that we are moving to a new G at the same time as two other very significant technology innovations. Firstly, software-defined networking and network function virtualisation are fundamentally changing the way in which telecommunication networks are architected and operated.

Secondly, significant advancements in computing capability and the development of advanced algorithms are leading to sophisticated data analytics and machine learning. And it is the contribution of these two innovations as we transition to 5G and the evolution of the world of the Internet of Things that will transform telecommunications industry and support significant economic growth across many industries over the next decade. When we reflect on the Gs over the last 20 years, what has driven our success has been our ability to lead early and be ahead of the competition. This G will be no different. We intend to roll out 5G in three phases.

Phase 1 is the period that we're in right now, which is characterised by pre-5G technical standards and early launch. Mainstream compatible 5G devices are unlikely to be available until late 2019 and into 2020. In the meantime, however, there will be early use cases for 5G, the most significant of which will be fixed wireless. Currently, around 15 per cent of homes in Australia choose to have no fixed broadband service, and we can see a situation where this increases by a further 10 to 15 percentage points. We already have a number of offerings in the market for our customers who choose to have a wireless only solution, as do the other mobile operators.

But 5G will open up new opportunities and new markets in this regard, and we have rolled out significant capacity to support this, and we will have the products and services to support these customers as we compete in the mobile sector. Notwithstanding this, and as you have heard me say before, 5G will not replace the nbn. The volumes of data on six networks today exceed those on mobile by more than 50 times, and whilst 5G will create a number of options for customers who choose to go wireless, it will not be for everyone.

Phase 2 of the 5G rollout will address the mainstream market as handsets become available. 5G is critically important as it will enable us to drive down the cost per gigabyte of data as technology innovation improves speeds and capacity. In this regard, therefore, we will roll out 5G fast and extensively as it becomes available. Phase 3 of 5G will comprise the longer-term opportunities for growth, many of which have not even been identified yet. We have already laid substantial foundations in the Internet of Things and connected solutions, which are the early use cases that we've already deployed on 3G and 4G. These are the precursor to the long-term growth opportunities that will exist.

As every business, in every industry, in every sector looks to improve efficiency and effectiveness of their operations through the use of technology, many of these solutions will ultimately be connected by the Internet of Things, whether it's mining, agriculture, logistics, health care, and even for consumers, as you will hear from Vicki later. That is why we have the largest IoT platforms in the country in both narrowband and Cat M1 technology. We intend to lead in 5G, and we intend to win in 5G. We will have more to say about this at our 5G strategy day that we're planning in the second half of the calendar year.

Finally, as I said in my opening, our Telstra2022 strategy has six goals with tangible and clear milestones to which we will hold ourselves to account, and these will provide transparency of our journey. They cover customer experience, simplifying our business, network superiority, our people, cost improvements and strengthening the balance sheet. The strategy will deliver benefits for all of our stakeholders, for our customers, for our shareholders, and for our people, and it will ensure that Telstra remains Australia's premium and most trusted brand in telecommunications. We will measure our progress and hold ourselves accountable with key milestones along the way.

Let me summarise before I hand over to Vicki and Brendon to take you through the first pillar of our strategy in more detail. As I said in my opening, we have listened to your feedback, and our strategy addresses this head on. It is a strategy to lead the market by delivering the next generation of connected experiences for our customers, by simplifying our product range, by removing customer pain points and migrating all of our customers to a new world and, most importantly, by leaving the legacy behind. By maximising the value of our infrastructure by creating and operating it through a standalone, wholly-owned and controlled business unit with optionality for the future. By simplifying our structure to create an agile environment to better serve our customers and by building competitive advantage by resetting our economic model to drive further significant cost reduction.

We have been investing wisely, and that is why we are already well advanced in the underlying capabilities that we need to deliver. With the digital platforms that will enable our growth and Australia's largest, fastest, safest, smartest and most reliable next gen telecommunications network. Transforming a company needs a clear strategy, a willingness to invest, tenacity to stay the course, courage and a team that can lead through the change and the disruption. Because today, customers have many choices and their expectations are high. They need seamless, secure connectivity wherever they are. They demand privacy, security and transparency in their relationships with corporate Australia.

Above all else, customers choose to spend their money with companies who put exceptional customer experience at the heart of everything that they do and who are willing to innovate and lead. Our employees need to be equipped with state of the art technology and trained in new ways of working that are agile and enable us to execute at speed. And our shareholders expect us to deliver growth while leading the market. As we move forward into executing this plan, I am feeling personally both challenged and invigorated at the same time. It is an exciting future, and I look forward to answering your questions at the end of the morning. Let me now introduce Vicki and Brendon, who will take you through Pillar 1 of our strategy in more detail. Thank you.

MS V. BRADY: Well thanks Andy. And it is great to get the opportunity to talk to you today about Pillar 1 of our new strategy from a Consumer and Small Business perspective. At our last investor day back in November, I spoke to our strategic priorities for Consumer and Small Business. One of those was how we would lead and shape the Australian telecommunications market. Andy just talked about how challenging it is to transform a business and manage the legacy. In a business that has relationships with almost 8 million Australian consumers and almost 1 million small businesses, it is incredibly difficult to do that balancing act. That's why the decision to leave the legacy behind is so liberating. It has allowed us to lift constraints. It has allowed us to be more ambitious, and it has meant no compromises in the customer experience we can deliver for our customers.

We believe our plans for Consumer and Small Business customers are amongst the most bold in the world. When we compare them to our global peers, they are ambitious. So today I want to take you through three key things. Firstly, the new benchmark that we're going to set for our Consumer and Small Business customers. Second, the tangible changes that we will deliver for our customers, for our people and for our business. And finally, the road map of major product and service changes we will deliver through to June 2019. Now, there is an incredible amount of substance behind the work I'm going to share with you today. However, as you would appreciate, some of the details will be kept confidential for competitive reasons.

So let me start with our customers. In developing this new strategy, one thing has guided us, and that is what our customers really want from us. When we distil it down, they are demanding a new benchmark of trust in their relationship with us. Now, trust is an increasingly used term in the corporate context today and around the world. It can seem abstract. So I want to be very clear about the things that we need to change and deliver to set this new benchmark with our customers. Telstra2022 fundamentally changes the relationship with our customers. First, the number of plans that are available in the telecommunications market today are far too many. They are too complex. We know there are sometimes services included that customers don't value.

We know customers are uncertain about their charges that they're going to receive on a monthly basis. And we know they feel locked in, unable to move between plans when they want to. So we will fundamentally change this. Firstly, we will dramatically simplify the plans we bring to market and have far fewer of them. Second, we will provide our customers with peace of mind, making excess charges a thing of the past. Third, we know customers want clear incentives and recognition for having more services with us. And finally, we're going to make it much easier to manage their relationship with us in an intuitive, digital-led experience.

So I would like to take you through more detail, particularly in terms of the plans and the changes we are making. It is a complete redesign of our product proposition, moving to a modular approach for our customers, meaning that our customers can design their plans and needs around their whole household or their whole small business. Right at the centre of this new designs remains core connectivity, whether that's in the home, in the office or on the go. We know this is critical, we see demand for our core connectivity just continuing to increase. On our mobile

network, we saw data grow 50 per cent in the last year, and on our fixed networks grow a little over 40 per cent. So core connectivity stays at the heart of our relationship with our customers and the design of our new modular plans.

Customers will then have choices. Firstly, devices. The choice of the best range of devices to allow them to get the best out of their connectivity with us. Second will be an expanded range of value added services. The first category under there is the best digital entertainment. We already lead the market today with the widest range of digital entertainment available to our customers from sport all the way through to Foxtel. And again, we see demand for this ever-increasing. Right now, each weekend, we are already supporting 1.2 million devices streaming live sport, up 60 per cent from just a year ago. Another important category under our value added services is business-grade solutions for small businesses. Everything from productivity through to the very best security solutions for our small business customers.

And there is a third category under our value added services, and that is a new category leading innovation. And I'm going to speak a whole lot more about that just shortly. And finally in this modular construct, we want our customers to have very easy access to companion plans. Now, what do I mean by a companion plan? Once a customer has one connectivity service with us, we are going to make it a very easy decision to add further services at really great value. Whether that be a service for another family member, another employee in the business, or it could be a mobile data service for a tablet or a watch. Wrapped around this, we will have clear incentives for customers to have more services with us. And it will be delivered through an effortless digital experience.

So let me talk about the tangible outcomes that we will be delivering. As Andy mentioned, this is enabled by our strategic investments, particularly into our digital platforms that are making this possible. If I start with our products, 1800 plans down to 20. There are two components to this. Firstly, our in market plans. Today, we have around 400 plans in market across a myriad of systems. By June 2019, we will move to just 20 plans in market, supporting the full modular construct I've just spoken to, enabled on our digital platforms.

For our existing customers, they are not left behind in this change. In fact, we want to move them into this new world to give them the benefits of our simplified plans and propositions. So we will be migrating our customers into our new plans and propositions and platforms by June 2021. As we do this, we leave behind a further 1400 plans that sit in our legacy systems. This will unlock benefits for our customers in simplifying things for them and, clearly take massive complexity out of our business, reducing our cost base.

We'll also be making bold changes in the service experience for our customers. Again, enabled through our investments in our digital platforms, we will be progressively rolling out a redesign of our digital experience, starting with our 24x7 App. It will become increasingly intuitive and personalised for our customers. Today, we have four million customers who are active users of our 24x7 App. By 2020, we expect this to grow 50 per cent to six million active users.

We will also be making significant improvement in the experience our customers have when they want to talk to us. Whether they come in store, whether they call into our call centre. There is a step change in the tools and systems that will enable our team members that face our customers each and every day. We will move from a world of legacy systems, of teams having to navigate three CRM systems, numerous screens, non-standard workflows and lots of manual processes, to June 2019 when we will move across to one cloud-based salesforce platform, simplifying and standardising the agent interface, allowing our teams to fully case manage end to end experiences with our customers, rather than individual transactions. This is a huge change. It will be a dramatic reduction in customer effort. And we believe that will see our customer service calls reduce by one-third in 2020.

Through the combination of these new modular plans, through having an expanded range of value added services and strong incentives for customers to have further services with us, we've set some bold ambitions around growing the number of services customers have with us. So I do want to take a further look at some of these growth areas. Telstra has a really long history of leading in technology and delivering innovative products to our customers. And this point in time is certainly no different.

If I start with the home. Back in February 2017, we led the market by bringing our Smart Home product to our customers. We were then the first global telco to integrate Google Home into our Smart Home offering and we saw a seven times uplift in the usage of our customers on our Smart Home platform as a result. We've also introduced our Smart Modem and we've introduced Smart Wi-Fi for our customers. Things continue to evolve and grow. We are in the era of connected things. And I know in the enterprise space, Brendon will speak a lot about some of the great things we're doing there. But I want you to know, we're also excited about what it means for consumers and small businesses.

If we look across the last year, Internet of Things connected devices in the home in Australia have gone, on average, from one to three. And the forecasts see it growing another 76 per cent in the coming year. In our next financial year, we are set to launch Telstra Locator. Now, we all know that sinking feeling when you lose something that is important to you. We'll be bringing to market a product that helps our customers. Whether it's trying to find your keys, your wallet, your bag, your pet, or in the case of a small business, it could be a toolbox or a piece of machinery. All those important assets that you need to keep track of. We are uniquely placed to bring this to Australian consumers and small businesses with the combination of our mobile network assets which includes our Cat M1 network and our narrow band IoT, alongside our Telstra Air Wi-Fi network. We are confident our customers are going to love these services and our competitors will find it very hard to match.

Robyn is going to talk a whole lot more about 5G a little later today but again, I wanted to reinforce 5G and the use cases extend into Consumer and Small Business. We recently hosted a gaming convention at our Gold Coast 5G Innovation Centre and demonstrated that with 5G speed and latency, just how dramatic the experience for an online gamer can be changed. Our innovation teams are working very closely with global tech companies designing device and service roadmaps for our Consumer and Small Business customers.

I now want to finally finish by turning to some of our near term deliverables in terms of fundamentally simplifying things for our customers. We have a roadmap with five key product and service experience changes to June '19. There is, as I said, a lot of substance behind these with most of it already well in build. However, as I said, I'm going to keep some of this detail confidential and we will share more about each one as we get closer to the launch date. But today, I am very pleased to announce four significant changes that we will bring to our customers in July.

The first is peace of mind data across a wide range of our postpaid plans, taking away the fear of excess data charges. Second, is our first companion plans, providing really simple and compelling reasons for our customers to add more services with us. And then finally, there are two components of our effortless digital experience that our customers will enjoy in July. The first of these is a really effortless express checkout, particularly for our new range of companion plans. And finally, the redesigned experience for our 24x7 App.

So in closing, we are choosing to lead in the consumer and small business markets here in Australia. By leaving behind the legacy and moving to the new world for our customers, our people and our business, we have the ability to truly transform the nature of telecommunication services and products in Australia. I will now hand over to Brendon Riley. Thank you.

MR B. RILEY: Great. Thanks very much, Vicki, and good morning to everybody. I am here to talk about Enterprise from a Pillar 1 perspective. We're continuing to execute our enterprise strategy, not only to drive growth but also to drive differentiation. And for those of you that have been coming to these briefings for a little while, I think you'll see some consistency here in the approach we've been taking. We do have a very strong position in core networks in mobility and over the last four to five years, we've been building out our technology services or NAS business. We've been doing that to evolve how we present ourselves to our customers, beyond just a core telco but a key technology partner that's able to innovate, co-create and drive new solutions with our customers.

We've also been doing that to grow our business, because that core connectivity has been shrinking and a lot of the legacy products coming to an end. We've done a very, very good job of managing our margins across both of those portfolios, and we'll report at the full year on the improvement in the NAS margins as well. We've been able to do that not only through organic changes, but a series of micro – small to medium acquisitions, around about 15 different acquisitions. We've also leveraged some of the big partnerships we have with some of the biggest technology companies in the world.

While I'm very, very happy with that and it's a multi-billion dollar part of the portfolio now, it has primarily serviced probably our top 1000 customers. What our mid-market customers and indeed all of our customers are looking for is us to move to more platform-centric offerings, and that's what we've been working on hard over the last 12 to 18 months. We not only are bringing out our own IP, but we're curating some of the best IP in the world to bring those unique solutions to market, and we'll talk about a couple of those in a moment. But we do need a new digital stack and new tech base to move into this world, and we've commenced that process and importantly commenced rationalising many of our legacy products.

We have in the past 12 months stood up a new stack. This is it. It's been a long time since we've invested in the core technology of the Enterprise business. Too long. So the three billion incremental investment that Andy referenced was really a great opportunity for us to be able to do that. I'm really thrilled at how quickly we've moved. We've stood this stack up in a year. We've migrated all of the frontline salesforce and our channels to Salesforce, including all of the opportunities that we manage every day. We have a plan in place to exit 50 per cent of our plans and products over the next three years, including 20 per cent in FY19. We've shrunk our product release cycle from years to months, and there's a number of examples that I can give you where we have done that, and our forecast is over the next three years, this new stack will reduce calls from our customers into Telstra by 65 per cent. And while that is a cost opportunity, the most important thing about that is our customers don't have to call us as frequently as they do today.

There've been some really good and exciting releases from the stack. If I start right at the top, Telstra Calling for Office 365, that was the first of a kind anywhere in the world between a telco and Microsoft with 365. It brings together the best of 365 and our core network calling, enterprise-grade network calling. It enables customers to migrate their existing numbers with them. You can see we've had some great success with Downer, with R.M. Williams, and indeed, since launch in general of our ability in May, we've added 2000 new SIOs already with this exciting new offering.

In security, you'll see at the back of the floor here our security operations centre, which we've launched in Sydney and Melbourne. We've won a number of awards already and are seeing tremendous growth with that offering. And then finally, as Andy mentioned, we have the Telstra Programmable Network. This is enabling our customers to virtualise their network loads, particularly into data centre and major public cloud providers, and we have over 300 of our major customers here in Australia and around the world on that platform.

What's really exciting, though, is IoT. We've got some great demos for you in the break coming up on that, as well as a great insight into 5G. But the work that Robyn and the Ops team have done on expanding our network presence, getting us ready for 5G, is really powering our growth. We'll grow our IoT business 30 per cent this year. We'll add 300,000 new SIOs. But importantly, we're developing a range of exciting new solutions with our customers. Our acquisition of MTData has enabled us to win important new logo customers in the heavy vehicles and supply chain logistics area, including Linfox, Qube, and our own Telstra Fleet. We're also working with most of the major automobile manufacturers in the world as they came in and they are looking to build out not only their connectivity in vehicles, but all of the work they're doing on autonomous vehicles.

I'm very excited by what's happening in locate and sense. We have a lot of co-creation projects underway at the moment, managing assets, including airline assets, industrial assets like gas cylinders, and importantly supermarket and supply chain logistics, pallets and containers. What I'm really excited about though, is what we're going to be doing for our mid-market customers. While our services business has done well to service the needs of our enterprise – large enterprise customers, it's been the mid-market customers that have been really asking for us to come out with some new breakthrough offerings for them.

So we're delighted to announce today Connected Workplace. We have Connected Workplace in minimal viable product. We will announce Connected Workplace in the months ahead, and as Andy mentioned, this will have general availability before Christmas this year. It is the ability to provide fixed voice, UC messaging with add-ons for mobile and applications on a per-seat basis – per-seat pricing basis for our mid-market customers. It will be all digital. It will be ordered in minutes, provisioned in minutes to hours, and everything will be billed electronically with the ability for the customer to flex up and down in volume in real time. It's going to be a very, very exciting offering and something that we will be able to extend beyond the mid-market into our larger customer base over time.

The investments that we've been able to make in our stack, in our product development is going to drive a lot benefits for us and our customers. If we look at it from a channel perspective, we have already in place some new tools for our frontline. Just on fixed network orders, that tool is reduced by about 1600 hours a month. It's a great example of what automation and robotics can do to just make the lives of our frontline team so much easier. We've moved 4000 of our under-served customers into a digital customer hub with these latest tools. We've taken that group of customers from double-digit negative in NPS declining to double-digit positive NPS and growing.

If we look at customer self-service, today we've got about 50 platforms that our customers have to navigate. We already have in market Telstra Connect, which will be the single digital interface for our customers. We have 100 customers in pilot with Telstra Connect, and already we're seeing on all of the services that we provide about a one-third reduction in calls and interactions back to Telstra. And importantly, we're going to be able to consolidate 50 per cent of our products and platforms over the next three years, which Andy mentioned. Speed, modularity and reuse are already driving the reduced cycle times in our business. So for Enterprise, the strategy is clear. We're continuing our evolution, our growth, and the investments we're making in digitisation and simplification are just going to continue to change up the experience for our customers. So with that, I will pass over to Will Irving.

MR W. IRVING: Well, thank you, Brendon. As Andy has outlined, Pillar 2 of the Telstra2022 strategy is focused on maximising the value of our infrastructure assets. It's one of the key changes we're announcing today, and it's the creation of a standalone new business unit called Telstra InfraCo. So I'm now going to spend some time taking you through firstly why we're establishing Telstra InfraCo and the benefits for customers. Then I'll give you a closer look of what it will consist of and its key financial metrics, and finally I'll outline the timeline from a reporting and implementation perspective.

So from the 1st of July, Telstra InfraCo will be responsible for key fixed network assets as well as our relationships with our wholesale customers and nbn co. It will be accountable for the following infrastructure: all of our copper and HFC networks; all of our fibre network that is not dedicated to mobiles; all of the access equipment associated with those two networks; all the ducts, pits and pipes; our property, including managing more than 5,000 exchanges, together with our data centres; and

our international subsea cables. This totals many millions of kilometres of connectivity infrastructure around Australia and internationally.

From an organisational perspective, Telstra InfraCo will comprise both Telstra Wholesale, which provides sales, marketing, product and service capability for our domestic wholesale customers; and also our nbn and Commercial Delivery team, which is responsible for the services we provide to nbn co including network design and construction. From its establishment on the 1st of July, Telstra InfraCo's mission will be to be the most efficient fixed telecommunications infrastructure provider in the market. It will also have clear incentives to drive capital efficiency and return on invested capital, including focusing on monetising assets.

It will also have a primary mission to improve productivity and infrastructure delivery, to the benefit of all our customers. For our investors, segment reporting of InfraCo will provide greater transparency and visibility of the value of these assets and the returns that they generate. Additionally, by putting these assets in one business, we are giving ourselves more optionality and flexibility, particularly as we look to the period after the nbn rollout is completed. So the creation of Telstra InfraCo will deliver benefits for all our customers. And InfraCo itself will have three segments from a customer perspective.

It will serve our 200-plus Telstra Wholesale customers by providing them with the infrastructure and the services they need to reach their customers, continuing the wholesale market leadership that we have today. Secondly, it will serve nbn co across the range of activities we undertake for them, from network design, construction and maintenance, to access to infrastructure, to the asset transfers under the definitive agreements. And by bringing various dimensions of our relationship with nbn co closer together, we will better integrate how we serve them. And Telstra InfraCo will also serve the rest of Telstra, providing it with the access to the fixed telecommunications infrastructure that it needs to deliver services to all market segments right the way from consumer to large enterprise.

It will have performance targets and internal service level agreements to improve fibre delivery times and infrastructure availability, which will benefit all our customers. Now, you will have noticed that the mobile assets are not part of Telstra InfraCo. Telstra will continue to operate an integrated mobile business, with key assets including spectrum and towers, and our Network Apps and Services business remaining with our retail business units.

Likewise, responsibility for operational activities, like actively managing traffic across our networks, will continue to be with the Telstra Operations group, as it is today. Indeed, while Telstra InfraCo will share ownership of equipment used to power services carried over the InfraCo infrastructure, all network management continues to be undertaken in Operations, which means that we run one integrated network from a traffic and managed services perspective. So this alignment of assets and operations is designed to ensure that we continue to lead the market across Consumer and Small Business and Enterprise, just as you've heard from Vicki and Brendon.

Moreover, having our mobiles, our software, our applications, 4G, 5G and IoT all aligned together with our retail customers will enable that close collaboration that

you heard about to continue to bring innovative new services to market faster. And, finally, maintaining an integrated mobile business is particularly important as we execute on our rollout of 5G. So this next slide outlines the full make-up of InfraCo. And, as I've already mentioned, we have the three customer segments and we have the fixed network infrastructure that you can see. From an employee perspective, InfraCo brings together Telstra Wholesale and our nbn and Commercial Delivery teams, which a combined total of around 3000 staff.

And as part of Telstra, Telstra InfraCo will continue to make use of shared services, including Global Business Services and support functions. Importantly, because the new structure maintains the separation between wholesale and retail businesses, the creation of InfraCo is consistent with Telstra's Structural Separation Undertaking and our information ring-fencing obligations to nbn co. As Andy mentioned, reflecting the standalone focus of Telstra InfraCo, it will be led by its own CEO, who will report to Andy Penn. I am leading the implementation process for InfraCo to enable a smooth transition once the permanent appointment of a CEO is announced.

So at its establishment on the 1st of July, Telstra InfraCo will control assets with a book value of approximately \$11 billion, as you can see on the chart. And this is broken down with the ducts, pipes and fibre representing the majority of those assets. From a revenue perspective in FY18, InfraCo would have had revenue of around \$5.5 billion. And this revenue has four primary sources. Firstly, there's the existing Telstra Wholesale revenue that we receive from our wholesale customers today. Secondly, there is revenue from nbn co for commercial works. This includes their work as part of the rollout but does not include the one-off payments from nbn co.

Thirdly, there are the long-term recurring proceeds from nbn co under the definitive agreements. And, finally, in addition to the external revenue that I've just mentioned, there is internal access revenue from the rest of Telstra. And these are calculated at market rates or the closest equivalent. So based on that revenue, in FY18, there would have been EBITDA of around \$3 billion. And this splits roughly two-thirds into recurring, long-term revenue – and that includes the recurring nbn receipts, which are inflation linked and grow over the next 30-plus years. And then there's the one-third which is – relates to legacy assets and the rollout of the nbn, and that is declining each year.

As FY18 pro forma numbers, these figures are estimates and may change subject to the final asset valuation. But nonetheless, they serve to give you a real sense of the scale and the importance of this infrastructure-focused business. So as you can see, our investors will now have greater transparency into the value of our fixed assets and our performance in managing them and in driving returns on invested capital. And for the long term, it creates greater optionality as the industry continues to evolve and the nbn rollout completes.

In closing, I will leave you with a sense of the timeframe for setting up InfraCo as a standalone business. On the 1st of July, our employees and customers will be aligned into Telstra InfraCo and we will begin implementing the standalone arrangements for asset and operational accountability that I've mentioned. And this process will be completed during financial year '19. In August, at our full year results, you will see pro forma FY18 financials published. And beyond that, we will have the first formal

segment reporting for InfraCo as part of our first half results in February next year. Thank you.

MR BURLEY: Thanks, Will. Now, as mentioned earlier, we will be running a technology showcase during the morning tea break with some of the innovation happening here at Telstra. Now, there will be five zones for you to experience. A map is shown on the screen. You will see there's pink, which is the 5G innovation; orange, Internet of Things; green, digitisation; blue, partner innovation; and purple, sports entertainment portfolio. So what we're going to do is start off with the first experience now over morning tea, with the remaining rotations over lunch.

Now, to make this work, you should have a pre-assigned group. Most of you, if you look on your name tag, you will see a coloured dot which reflects the zone that we want you to experience first. So I invite you to head out the doors. At the back of the theatre, there will be people to direct you to the respective zone. Now, anyone that doesn't have a colour badge, feel free to join in one of the groups. And if you're not sure where to go, just ask one of the staff at the back. Now, we will restart in about 30 minutes, so please be back in the hall at that time as directed. Thank you.

RECORDING SUSPENDED

[10.42 am]

RECORDING RESUMED

[11.09 am]

MS A. BADENOCH: Good morning. I now have the opportunity to take you through Pillar 3 of the Telstra2022 strategy. As Andy has outlined today, we've reached an inflection point for both the telecommunications industry and for Telstra. Today, we have announced some significant shifts in how we will serve our customers and leverage our investments in networks and digitisation. As we make these changes, it's critical that we also look at how we are organised and ensure that we are setting ourselves up in a way that will best deliver on these commitments.

Pillar 3 of our strategy is focused on simplifying our structure and ways of working to empower our people and best serve our customers. The move to simpler customer propositions and enhancing digital experiences will materially impact the work done by our people. In the future, our workforce will be smaller, with a structure and way of working that is agile enough to deal with rapid change. This means that some roles will no longer be required. Some will change and there will also be new ones created. Now is the time to reshape our organisation, significantly simplify our operating model and flatten our structures to bring decision-making closer to those who serve our customers and empower our people to solve challenges, innovate and accelerate our speed to market.

Within three years, Telstra will be a fundamentally easier place to work at and to do business with. Our aim is to eliminate major pain points for both our customers and our people. Let me now give you more detail on the four elements of our strategy. Firstly, to simplify and flatten our structure and transform our operating model. We will be going through a detailed process to reengineer our operating model and reduce duplication, flatten our structures, removing two to four layers across all parts

of the business, and significantly reduce our cost base to ensure we position ourselves competitively in an ever increasingly competitive market.

This will also be enabled by the significant product simplification plans outlined in Pillar 1. With simpler propositions and enhanced digital experiences, there's work that will no longer be required. So this is not about moving work offshore or to partners, but about truly eliminating work and simplifying our processes in every part of the business.

Secondly, scale up our shared services model to drive efficiency and effectiveness. We will also be taking the opportunity to significantly scale up our shared services activities, bringing together all repeatable high volume, back office and operational activities across the business. This will of itself, eliminate duplication across our organisation but also ensure that we have a rigorous focus on process reengineering, automation, continuous improvement and innovation to drive effectiveness and efficiency.

Thirdly, elevate our organisational focus on product creation and innovation. Telstra intends to elevate its focus and capabilities in product development and management across the company, increasing the leverage and sharing of our technical efforts across all customer segments. With a commitment to be customer driven, our ability to create and acquire the best solutions to meet our customer needs is core to the Telstra2022 strategy. We will be elevating our focus on product creation and innovation by ensuring that we align our teams against our strategy. This will support faster product development and, ultimately, faster speeds to market.

Last, but importantly, we will accelerate implementation of new ways of working that embed Agile, DevOps, Lean and customer centred design. We've already made a lot of progress in embedding the use of these new ways of working. But we will now accelerate the use of these consistently across the business. Most importantly, to support our commitment to transform the customer experience but also to create a better working environment for our people. Moving to new, Agile and Lean ways of working will enable us to reduce our executive management numbers, as well as providing our teams with the opportunity to better deliver against customer needs, work in more empowered and rewarding environments, and support more dynamic careers across our business.

Today, we're announcing two key structural changes. Firstly, the creation of Global Business Services. Global Business Services will bring together our shared services functions as well as other high volume repeatable activities to ensure that we take a one-company approach to simplifying, automating and innovating in these areas. The group will be a point of consolidation for all large scale back of house and operational processes and functions, using technology to reduce costs.

The new business unit will launch on 1 July with approximately 2500 employees on commencement, with the expectation that as we incorporate more functions and activities into this model, it will grow over the next two years. Our Global Business Services team will provide services to all Telstra business units and Telstra InfraCo. You've also heard Will Irving talk about the creation of Telstra InfraCo. The standalone business will also be implemented from 1 July with a workforce of approximately 3000 employees. We will be appointing a CEO to lead the Telstra

InfraCo business who will report to the Telstra CEO and manage Telstra's high quality fixed network infrastructure with services sold to Telstra, wholesale customers and nbn co as well as managing the nbn co relationship.

Further changes to our operating model will be announced in July and implemented from 1 October. These changes will have a material impact on our people. We recognise that the proposed changes are significant and will immediately commence consultation. Our commitment is to ensure that we speak to our people first as decisions are made about the future organisation structure. We expect to reduce total employee numbers by around 8000 over the next three years, including 25 per cent of executive and middle management roles to flatten our structure. I am very conscious of the impact this has on our people. But it is critical that we are transparent about the changes we are working through. We expect to be able to share more information later in July. We are also committed to consulting with our employees and their representatives as initial decisions are made about specific job impacts.

We also must continue to invest in capabilities we need for the future, with approximately 1500 new roles being created in areas such as software engineering and cyber security. As we go through this level of change, we want to ensure that we stay focused on the experience of our people, creating a great place to work and building a culture that we can be proud of. That's why, as part of our Telstra2022 measures, we are setting a goal to reach global high performing norm employee engagement levels by FY22.

Recognising the impact this scale of change will have on our people, we are announcing two programs to support all employees: a transition program for those leaving Telstra will provide enhanced outplacement support, including supporting people navigating career change, applying for new roles and planning financially for their futures. For those remaining or moving to new roles at Telstra, we will provide support to upskill and transition to new ways of working in our leaner, more agile organisation. To support the transition program, we intend to make available initial funding up to \$50 million of which the majority will be directed to those who no longer have an ongoing role with Telstra.

While the size and shape of our organisation will evolve, our success will continue to be built on people with a deep connection to our customers, expert knowledge and technical expertise. I will now hand to Warwick Bray to take you through Pillar 4. Thank you.

MR W. BRAY: Thanks, Alex. And good morning. Through this initiative, we will implement industry-leading cost and portfolio management. We have previously committed to more than one and a half billion dollars of net cost productivity by FY22. We have been successfully executing against this target since FY16. Indeed, we brought forward and increased the target in August 2017. Today, we are again increasing our net cost productivity target by \$1 billion to \$2.5 billion to be delivered by the end of FY22. Our target is equivalent to an eight per cent annual reduction in underlying core fixed costs from FY18. Our new target is significant and is at the upper end of what global peers have delivered in similar time periods.

We are on track to achieve approximately \$700 million of productivity by the end of FY18. We expect to increase our momentum with \$1.5 billion to be delivered by

FY20. To support our increased target, we expect around \$600 million of additional restructuring costs in FY19. We measure productivity as the reduction in reported net underlying core fixed costs. In order to achieve our \$2.5 billion net cost productivity, we estimate that we need more than \$4 billion in gross productivity by the end of FY22 to offset inflation, re-investment and other cost growth such as increased power costs. This means that after inflation and re-investment, our gross cost productivity target is expected to almost halve our underlying core fixed costs to about \$4.5 billion dollars by the end of FY22.

We are aiming to achieve this productivity while supporting improved customer experience and five times growth in fixed and mobile network traffic from FY16 to FY20. We expect total costs to be flat or decline each year, excluding restructuring costs. Cost productivity is expected to ultimately offset the increased CVC/AVC nbn costs. Looking at each of our cost categories in turn. Within core sales costs, network payments to nbn will increase as customers are progressively connected. We will also continue to progress cost efficiencies to improve other gross contribution margins. For example, our simplification initiatives will aim to reduce handset subsidies.

Within core fixed costs, that's where we are committed to the \$2.5 billion dollars reduction. We manage NAS labour costs through the NAS margin. We are continuing to aim for mid-teens NAS margins at maturity. One-off nbn DA costs will reduce to zero post the nbn rollout. In the interim, we are reducing the nbn cost to connect and improving the customer experience.

Our company-wide productivity program will simplify the way we operate and interact with customers to reduce our costs. Our productivity program has overall company support with the implementation owned by the line divisions, not a central function.

The consistent theme with the productivity program since FY16 is an aim to improve outcomes for our customers and achieve productivity benefits as a result. When our products are simple, intuitive and easy to use, and when our processes work right first time every time, our customers receive a brilliant experience and the cost to serve our customers reduces. The program has four main elements consistent with that theme.

Firstly, we are simplifying our product offerings. This will involve phasing out legacy products, migrating customers to new, better products and simplifying our NAS offerings, and we will decommission systems that support legacy products.

Secondly, we are forming a simpler organisation to de-layer, de-duplicate and reduce demand. We will consolidate and streamline back-office processes into a single shared services model through the establishment of Global Business Services. And Telstra InfraCo is aiming for improved capital efficiency and infrastructure delivery to further reduce costs.

Thirdly, we are digitising and automating sales and service channels. With increasing customer preference for digital channels and by enabling straight through processing, we can improve the customer experience and reduce calls. We will, in particular, improve our fixed reseller cost to serve by operating on a new digital

stack. This will eliminate costs that support legacy systems and processes and provide us with a leading and competitive cost structure.

Finally, our discretionary cost review program is aiming for reduced operating costs by tightening business policies across procurement, property utilisation and discretionary costs such as transport. Our productivity program will transform the operating and financial profile of our business. For example, we are aiming for approximately 30 per cent improvement in our labour costs to income ratio. We also seek to monetise up to \$2 billion of assets by the end of FY20 to further strengthen our balance sheet. And we will make more specific announcements on monetisation at our regular results announcements.

Our strategy is expected to deliver a post nbn Return on Invested Capital greater than 10 per cent with the underlying ROIC expected to improve from FY19 through to the end of FY22. As we discussed in November, our long term corporate ROIC will depend on: a mix effect where our higher ROIC products such as fixed voice are currently in decline; the nbn, which will reduce the ROIC of our fixed line business; and the development of other product ROIC, for instance, NAS, which is improving. We manage our Return on Invested Capital through capital allocation and through improving capital effectiveness and product returns.

We are also targeting ongoing improvements in capital and working capital efficiency. For example, on working capital, we have recently changed standard payment terms with our largest suppliers to bring us in line with industry peers. We have also further increased the precision with which we forecast and match handset inventory to demand. And we have moved to a vendor-owned inventory model with select suppliers where they retain ownership of inventory up to the point of dispatch from our distribution centres. That initiative alone has improved our cash cycle by one to two days.

Turning to capex, we have consolidated the number of vendors providing IT integration testing from three to one, enabling us to reduce costs. We have also further improved our matching of software licences with internal demand. And we have centralised our data warehouse teams, enabling us to reduce duplication and reduce capital costs.

So, in summary, today, we have announced an industry-leading cost reduction program. We have increased our cost out ambition by \$1 billion with \$2.5 billion dollars targeted by the end of FY22. We will achieve cost benefits through fewer, simpler products, a leaner organisation, and through digitisation and automation. We will also simplify our portfolio and seek to monetise assets of up to \$2 billion by the end of FY20. Thank you. And I will now turn to Robyn.

MS R. DENHOLM: Well, thank you, Warwick. And thank you all for participating in the showcases in the break. And there will another opportunity to do that at the lunch break, as well. So, as you heard from Andy this morning and also as Vicki and Brendon really made these come to life. We're well advanced with our digitisation programs and also our network of the future program. And many of those items are actually on display in those showcases that you've seen. But what I will try and do today is actually stick it all together for you and give you the big picture.

So I've been involved in technology programs at a few different companies for most of my career and if I sit back and have a look at that, there are several key factors to ensure a successful delivery of these programs in terms of the execution. You've got to have a compelling business case. You've got to have the right economic outcome that you cannot deliver by simply doing incremental changes in the environment. And you've got to have a clear strategy and the right team. We clearly have the right team here at Telstra in terms of all of the technology areas. The strategy that we've announced today around Telstra2022 actually helps in terms of delivering all of the technology to a very clear set of outcomes.

And those outcomes are superior products for our customers, a next generation of digital customer interactions and also a fundamentally different cost structure that will both enable us to lower our costs per bit traffic, but also the cost to serve our customers across the board. So this presentation, as I said, will try and bring that to life for you, so let me start by going through what we're doing. So if you look at what we're doing here, the core technology capabilities are what makes Telstra today, the company that it is today and the company that it will be in the future.

We do things at scale here at Telstra, in a very fundamentally different way. We have more than 400 million calls a day. Just think of that. 400 million calls a day, or data sessions every single day. We carry 5000 petabytes of data a day. We support 2.1 million live sport passes and streaming each and every day. It is the biggest source of our competitive advantage. So if you look back at the 2016 announcement of our up to \$3 billion investment, that was a huge step – a big defining moment in the company's history, which today we're able to expose what we're doing.

So in terms of what drove those – that announcement, it's the fact that traffic is exploding in terms of the amount of data that we're supporting, that these new technologies around SDN and NFV enables you to do that in a fundamentally better way and a cheaper cost per bit. So I wanted to actually start off the presentation by showing you where we've been investing the dollars that we announced a few years ago, and we've made real progress in delivering across the board.

We have spent to date \$1.8 billion of the up to \$3 billion in our networks and digitisation area. And what you can see from here, it is an exceptionally busy slide, and I apologise for that, but actually I don't, because it shows you the amount of stuff that we've been delivering across the board.

If I start with digitisation, we've spent about \$300 million to date on foundational capabilities, mobilising resources, making sure we have the right talent on the programs, and adopting these new ways of working around Agile, etcetera, and we've using them specifically to target customer pain points that we've mentioned today before, things like the digital assets that we're deploying in our nbn assurance area, that's actually improved significantly over the last year using the technology of being able to fix that entire service delivery chain end to end.

The Track my Tech capabilities that we've done in our field organisation, we do six to seven million truck rolls a year. Digitising that and actually streamlining that is a huge opportunity for us. The 24x7 App that Vicki mentioned earlier enables the customer to see what's going on in terms of their environment, whether it's through their Wi-Fi Doctor or actually through services or new products that they've ordered.

The Connect app that you saw if you went into the digitisation area is the Enterprise area that we've been delivering on again. We have already stood up 70 per cent of the digital – the core digital platforms for the entire company, and I'll go through the new stack in a minute.

The first part of our focus in terms of this journey has actually been on the networks, and so that's where we've invested the majority of the money, about \$1.6 billion to date, and it is core to the differentiation of the company. We've spent money on our mobiles area to extend that differentiation. We've doubled the speed of 4G. We've deployed our one gigabyte per second enabled 4G in the metro footprint. We've launched the largest IoT platform in the region, with both the narrowband and Cat M1 areas, and you saw some of the great products and services that we're starting to offer to our customers, and we've upgraded the optical transport network around the country to 10 times the available capacity. And we've also begun our journey on the 5G area, which I'll also talk about in a minute.

We've strengthened our network resiliency. We've virtualised many of the functions in our networks, including in the core, both in terms of our media core and our mobile core. We've deployed software-defined networking technologies across the board. So let's take a look at how our customers are actually benefiting by some of the technologies that we've been investing in. So if you look at these four quadrants, they're the things that we look at in terms of customer benefits. The first both Vicki and Brendon talked about in terms of the apps, both 24x7 but also Customer Connect.

The second chart is actually a very important strategic chart. It plots the rate of growth on the mobile network, and you can see that we have been expecting from 2016 forward five years a 5x increase in the amount of traffic, and what we're seeing currently is actually three times that volume in terms of the forward projection of where our data volumes will go in the mobile area. Some of it, as Andy mentioned before, is the shift between fixed and mobile, but some of it is just pure new-use cases that customers will be using the mobile network for. IoT is a classic example, but there are many others as well, and if you get a chance, have a look at the 5G innovation area that we have here today for you.

The other thing that we have done is we've strengthened our network reliability. Now, I know that many customers rely on our networks each and every day for their business endeavours, but also for their lives in terms of consumers, and I know the month of May this year was not a good month for us, but if I sit back and take a look at it, we've actually reduced the amount of customer impacting incidents in the network by 60 per cent over the last two years, and again, we will continue to strive to have an always-on experience for our customers, and the investments that we've been making have actually enabled us to do that, and when we move forward here with the next generation of network, a lot of those investments will actually help in our core resiliency as well.

We've also deployed, as part of our resiliency, our next generation OSS, which today actually enables us to have great visibility across all of the network topologies that we have, all the way down into the modem that we've deployed – the Smart Modem that we've launched for our fixed offerings as well. And what that does is enable us

in the future to actually predict outages using machine learning and artificial intelligence.

In terms of the last slot, our maintaining network leadership and extending that is a core tenet of our strategy around our technology, and what I want to make sure of is that we do that across the board, and enable our customers to experience that. So today is a very important day. The inflection point that we're at in terms of the technologies story is actually accelerating, and these investments will really come to the fore, enabling us to expose new capabilities that are in the network, but then also to be able to monetise those simply through these digital engines that we have.

So let me go through two areas: the stack and also our digital core, but then also 5G and what we're doing on that front. So this is our digital stack. You saw it earlier in Brendon's presentation around the Enterprise experience. So how we do this is we're looking at it through the lens of the customer, the journeys that they have with us, because it's really an outside-in perspective in terms of how these digital stacks are enabled.

You can see there that there are a lot of common elements, and that's part of the secret to what we're doing here. We're actually reusing and redeploying different parts of the technology stack for different areas that we're working through. You can see by the coloured dots that we're either in production, in pilot or in deployment phase for all of the elements that you can see and hear. So this, as Brendon mentioned before, 2018 has been a very big year in terms of standing up these, working through pilots, actually going through these. As we move forward into 2019 and having all of the new products enabled on this stack, that really brings to convergence what we're trying to deliver in terms of new product offerings with this new stack.

So for me, that's a very significant change and a departure for how we've done these types of digital programs before, where we're actually leaving the legacy behind, as my peers have quite eloquently articulated earlier, and putting all the new things onto this new environment. So – and we're also aggressively shutting off the old at the same time. Andy mentioned that we have a target of turning off seven to eight hundred apps over the course of this next period of time. We're also well advanced on that. The team in the IT group have actually turned off a few hundred apps already. And so in 2019, in FY19, we'll be accelerating the way in which we move forward, delivering products to our customers.

So let me just walk through 5G as well. It's going to be a big year for 5G. So why are we investing in 5G? As you saw from the showcases, and as we've talked about, it really will transform the network economics. So we've made significant advances with 4G, and up to the 2020 timeframe, we'll have reduced the cost per byte of traffic by 80 per cent. With 5G, you get another step up in cost reduction abilities, because the capacity that you can deliver is 10x that of 4G, and so the cost per byte is a very important factor when you then start looking at use cases that are actually economic.

In terms of delivering new or next generation customer experiences, we recently did an online virtual gaming convention here in Sydney, and the ability of the teams who were on 5G to use the reduction in latency to beat everyone else was fantastic, and if

you go to the showcase here, you can start seeking the industrial applications of that, whether it's looking at defective panels in an aircraft or whether it's working with a connected car. And also, that technology will enable us to really revolutionise other industries across the board.

So what we've delivered so far is that we've actually launched the first innovation centre in the Gold Coast. That was earlier this year. And the reason for that is really to create the ecosystem between device manufacturers and our network capabilities so that we can bring solutions to customers. We also did the first millimetre wave call. That was late last year. And we had the first 5G enabled hotspot on the Gold Coast as well. I mentioned the eSports arena as well. So if we go forward here, what we doing? We will have a network that is 5G ready in the first half of FY19. Our 5G commercial launch will be in FY20. Our spectrum auction, obviously, will happen later this year in October and we will have a national commercial deployment of 5G in major cities and all high demand regional centres in FY20. So, to me, the strategic programs have really been delivering. And they will continue to deliver as we move through FY19 and into 20.

I'll conclude by just giving you the big picture of what we're trying to deliver as these programs actually come to a natural conclusion. This is what we're delivering. We're enabling the next generation of connected experiences for our customers. Any product, any segment, any channel. That is a huge change for the way that customers will experience our innovation in their hands. It will be made with reusable capabilities, capabilities that will be enduring as we move forward. And it all starts with a common tech foundation. So, for me, the future is really bright. Telstra2022 is a phenomenal strategy for us to enable us to deliver technology to our customers. And, with that, I'm going to hand it back to Warwick.

MR BRAY: Thank you, Robyn. Before Andy's closing remarks, I'll cover financials from today's strategy update. Firstly, a summary of the financial implications of the strategy. Secondly, reconfirm FY18 guidance and provide FY19 guidance, including the influences on that guidance. And then our capital management framework.

The financial implications of the strategy are shown on this chart. Through Pillar 1, we will lead the market with simplified customer oriented charging. By choosing to lead the market and simplifying the charging model for our customers, we expect to accelerate the decline of more than \$500 million worth of traditional out of bundle revenue in the next three years. Over time, our intent is to offset this reduction for an increase in number of services per customer and the benefits of an improved customer service and simplification.

Through the establishment of Telstra InfraCo as a new business unit we will improve capital efficiency and create future flexibility. I'll make some more comments on InfraCo on the next slide. We'll also gain efficiency benefits through the establishment of Global Business Services. All elements of the strategy support our productivity ambitions. We're increasing our productivity target by \$1 billion to \$2.5 billion by the end of FY22. And this will be supported by, approximately, \$600 million of additional restructuring costs in FY19.

We will also seek to monetise up to \$2 billion of assets by the end of FY20 to strengthen the balance sheet. Through our network and digitalisation enabling capabilities, we're on track to achieve more than \$500 million of EBITDA benefits for up to \$3 billion of strategic capex by FY21. A strategic program of additional investments has been necessary to implement our new strategy, empowering us to simplify our business and increase our differentiation. This investment potentially brings forward write-offs of some software assets. And I'll give more detail on depreciation at our full year results announcement in August.

We expect that Telstra InfraCo will control assets with a book value of approximately \$11 billion and annual FY18 pro forma revenue and EBITDA of about \$5.5 billion and \$3 billion, respectively. In our results announcements, we will report product EBITDA margins with and without Telstra InfraCo. Excluding Telstra InfraCo mobile and NAS EBITDA margins are expected to be lower by mid to low single digits and Fixed and Data and IP EBITDA margins are expected to be lower by mid to high teen digits.

Let me comment more now on what will create value for the company in the medium to long term. Our initiatives seek to grow our underlying businesses with bold initiatives across Consumer and Enterprise. To grow our underlying businesses, we need to turn around the current trends in mobile revenue and ARPU. And today we've announced our strategy to do so. We are also aiming for future growth with new opportunities, such as 5G. For nbn, our reseller economics depend on our subscribers, our ARPU, our costs to serve and connect and nbn CVC/AVC charges. Our initiatives will improve all of those factors that are within our control.

We are also seeking continued growth in our NAS business and modern IP products to offset the impact of pricing pressure and the decline in legacy data revenue. We are resetting our cost base and we're delivering returns on our capital investments. We are committed to the more than \$500 million of benefits from our strategic investment of up to \$3 billion. The upcoming spectrum auction is very important to us. We also need to manage the timing and conversation of cash. On this important point, it's important to look at us on both a cash and an earnings basis, given the timing of capex, spectrum auctions and nbn DA receipts over the next few years. Finally, capital, cash and fiscal decisions will be managed via our capital management framework.

Turning to guidance. FY18 guidance numbers are consistent with our 14th of May trading update. While we don't typically provide guidance on the dividend, we are conscious the dividend is very important to our shareholders. And we're confirming today our total dividend for FY18 is expected to be 22 cents per share, fully franked, including ordinary and special.

Turning to our FY19 guidance, which is based on current accounting standards. FY19, we expect total income of \$26.6 to \$28.5 billion. We expect FY19 EBITDA, excluding restructuring of \$8.7 to \$9.4 billion. And FY19 additional restructuring costs are expected to be around \$600 million. We expect FY19 net one-off nbn DA receipts, less nbn cost to connect of \$1.8 to \$1.9 billion. FY19 is a very material year in the migration to the nbn and its impact on Telstra. However, the basis for our guidance on nbn one-off volume in FY19 is an estimate of a lower volume of disconnections than what was in the last nbn corporate plan for FY19, as that plan

pre-dated the HFC cease sale. In FY19, we expect capex of \$3.9 to \$4.4 billion, and we'll provide FY19 guidance for free cash flow at our full-year results announcement in August. As is usually the case, the basis on which we provide guidance is detailed in the slide footnote.

As highlighted at our 14th of May trading update, we expect that the influences resulting in declining underlying EBITDA in FY18 will continue in FY19. This includes ongoing intense competition. In our guidance we've estimated FY19 total market mobile and fixed revenue will decline 2 to 3 per cent on FY18. In FY19, we expect a decline in our mobile EBITDA given ARPU trends and the potential impact from a fourth entrant. From our updated strategy, we expect an accelerated reduction in traditional mobile revenue, including excess data, excess voice and other fees across the next few years.

Headwinds from the nbn network rollout will continue to impact the fixed line business. We've increased our cost productivity aspirations, which will partly offset the negative trends in FY19. We expect to achieve more than \$1.5 billion of our cost productivity target by the end of FY20.

We manage capital, cash and fiscal discipline through our Capital Management Framework. Our objectives remain unchanged, which is maximising returns for shareholders, maintaining financial strength and retaining financial flexibility. We remain committed to all of the principles underlying those policies.

Our dividend policy is to pay ordinary dividends of 70 to 90 per cent of underlying earnings fully franked, and in addition, it's our intention to return in the order of 75 per cent of net one-off nbn receipts to shareholders over time via fully franked special dividends. Our capex guidance in FY19 equates to 16 to 18 per cent capex to sales. As you know, we've elevated our capex by up to \$3 billion to support our strategic investment. We're on track to complete this investment in FY19 and possibly into FY20. The accompanying slide provides further detail on our capital management framework.

In summary, we're operating in one of the most challenging periods the company has faced, with the rollout of the nbn, competitive intensity, and the fourth entrant in mobiles. Against this background, we've an updated strategy and increased our net cost productivity target to 2.5 billion dollars by the end of FY22. We're on track to deliver the economic benefits from our up to \$3 billion strategic investment program, including from Digitisation and Networks of the Future. We're well positioned for long term. We believe in that long-term value, but the short to medium-term is likely to be challenging. Thank you, and I'll pass to Andy to conclude.

MR PENN: Well, thanks. Thanks very much, Warwick. Look, I'll just take a few minutes because I'm conscious that we've shared with you a lot of information this morning, and we'll all be keen to get to some Q&A and some interaction. But I want to step back for just a second and say our vision or the long term hasn't changed. We see great opportunity. The demand for connectivity is greater today than it has ever been, and with the technology innovation that is coming, the move to 5G, the things we've talked about this morning around software defined networking, the opportunities with IoT, we seek great opportunities for telecommunication companies in the future that can position themselves well for that new world.

And that's fundamentally what we've been doing. That's why we've been investing. That's why we've been building the capabilities that we have that Robyn so eloquently took you through. And as she said, there is a lot of stuff on that slide, and that is because we have been building a lot of capability. So we're really excited about the future. We think we've put in place the foundations that are going to be necessary to get us there. But as you heard from Warwick, we are facing probably one of the most challenging times with the confluence of the nbn, the competitive dynamics we're seeing, and we clearly need to respond, and we believe that we are at a tipping point.

The bottom line is we've been looking to manage and transform to the new at the same time as managing our existing business, and customers in Australia are frustrated by their experience with telecommunication products. They're complex. They're hard to understand. They have charges that they don't fully always appreciate. And so we're going to take the bold step. We're going to radically transform that approach with our customers, radically transform the products and services. We're building the systems that are going to be able to deliver that, and in so doing, we will drive massive simplification into the business, and that is what will support the increased productivity that we're aspiring to achieve.

It does have consequences for the number of jobs at Telstra, and that is the most difficult part of the overall decisions and the communications we're making this morning, but I need to be transparent and upfront about the scale of change that we need at Telstra and we will treat our people supportively, fairly, and with great consideration as we go through this period of change. But look, we're really excited about the future. There's a lot of work to do, obviously, and we'll be happy to get into some Q&A. So I'm going to invite the team that presented to join me on the stage now, and I think Nathan is going to come back and facilitate the session. So thank you.

MR BURLEY: As a team come up on stage, if you have any questions, we'll open questions to analysts and investors first. There will be a time for media Q&A subsequently. Our first question looks like it's from Sameer Chopra from Bank of America Merrill Lynch.

MR S. CHOPRA: Thanks. Thanks, Nathan. I had two questions, one – one for you, Andy, and one for you, Vicki. Andy, if you look at Telstra's balance sheet, it's in fine shape. You're AA rated. What's the thinking behind creating InfraCo? Doesn't it add more – it's not like you need money. The balance sheet is in great shape, as I said. So what's kind of the strategic purpose, and doesn't it just add more cost into the business? You're ultimately talking about creating a second business unit. I was wondering, doesn't all this create more cost and inefficiency in the company? Why bother with InfraCo? And then I'll come back to a question for Vicki.

MR PENN: Sure. No, well, thanks, Sameer. No, actually quite the opposite. I don't think it will drive cost and complexity. I actually think it will drive efficiency and performance, because clearly our infrastructure assets are extraordinarily valuable, and we will effectively create this standalone infrastructure business unit and put in place commercial arrangements and SLAs within the company with

Telstra to really drive the efficiency within those businesses, or within that business unit, and of course, what it will also do is it will highlight long-term optionality as well. I mentioned the potential for a demerger, the potential for the entrance of a strategic investor in the longer term. Now, we do not expect to consider that. That's certainly not a decision we've made, and we certainly would not expect to consider it at any time before the rollout of the nbn, but we believe in the meantime it will create transparency in relation to that business. It will improve efficiency within that business. A lot of those assets are obviously impacted by the rollout of the nbn, and we spoke previously about how we optimise that, how we accelerate the freeing up of those assets. So by giving it a very, very clear focus, that's where we believe we'll drive the efficiency.

MR CHOPRA: Because, Andy, when you look at, like, Spark New Zealand, or even Telstra historically when operational separation or structural separation has been on the cards, we've talked about a cost number in the region of sort of three to five hundred million per annum incremental added onto business when you start to break it up. That's what I was coming to, is why it has come as a cost into the business? What's kind of the big benefit? It's not like you need cash.

MR PENN: Well, I would disagree, because, in fact, if you look in New Zealand when Spark and Chorus separated, basically I think Spark reduced their cost by about 30 per cent in the period following that. So I understand theoretically that your point may have some validity to it, but I actually think that the catalyst that it creates, the focus that you can create will actually drive improved performance and, in fact, support us in terms of our cost reduction efforts.

MR CHOPRA: Thanks, Andy. Vicki, just a quick one.

MR PENN: Thanks, Sameer.

MR CHOPRA: Huge radical change in plans, 99 per cent cut in plans. What's the pacing around that, and what are we doing in terms of migrating the legacy customers? Is that a forced migration, so you'll contact customers and move them across to new plans, and is this done in '19, '20, '21, '22? Just a sense around time.

MR PENN: Just before Vicki answers, can I just express one thing because I know it is a big reduction from 1800 to 20. So the bottom line is, if you think about the telecommunication plan today, there is some core connectivity and then customers choose to have some media services or they choose particular devices or they may choose other sort of facilities such as insurance or other aspects that they add to the plan. And, typically, the way telcos work today is that those all end up being bespoke into individual offerings. And so that's what drives that number of plans. And not only are they bespoke into the plans. They're also bespoke into the actual systems that sit behind it. And that's what drives a lot of the complexity. And so by moving to a core set of 20 base plans with modular value-added services, that's how we've fundamentally changed that. So I figured that that would be in the minds of a number of people: how do you get this radical change from 1800 to 20. That is part of the answer to the question, but Vicki can sort of talk about the phasing and timing.

MS BRADY: Sure. Thanks, Sameer, for that. So the first big step is June next year when we move to our in market plans being on our new digital stack. So we go from

400 in-market plans to 20. We then have a program of work that will run two years from then for existing customers. So for our existing customers, those that are out of contract and coming out of contract, they will move onto the new products and propositions in the new stack. The reason we've made it two years is it gives us that time to work with our customers to make that move across onto the more simplified construct. So it will be June 2021 when we get to a place where all of our customers have migrated.

MR CHOPRA: Does that mean that the revenue pressure persists one more year? Just so I can understand.

MR PENN: No. It means it's sort of three years. So if you think about it, what it would mean is that by the end of year 1, we would have, essentially, the majority of our in-market plans in the new model on the new technology. We've then got, obviously, customers that are on existing plans and, as Vicki said, that reduces 400 to 20. We've then got customers who are on existing plans which have been sold in the past which we may not sell any more but the customers are still on them. And then we move those customers across, as well. And it's the combination of that from where there's about \$500 million worth of revenue from various different fees and charges which will ultimately leave the organisation over that three year period.

MR BURLEY: Okay. We will go to the next question now. Kane Hannan from Goldman Sachs.

MR K. HANNAN: Thanks, Nathan. Just two from me. Just, firstly, on the dividend into '19. I know you haven't given guidance but could you just comment on how you're thinking about the 600 mill in restructuring costs and then the timing of the nbn one-off payments and that 75 per cent special dividend. And then just on the 500 mill in out-of-bundle revenues. Is there any more colour you can provide around the composition of that number and how much of that decline is captured in the '19 guidance?

MR PENN: Sure. Thanks, Kane. Look, firstly, in relation to the dividend, I know how important the dividend is for all of our shareholders. We are confirming today that the 2018 dividend at 22 cents. We are also confirming our dividend policy. But, look, the board has discussed this long and hard and there are – basically, there are just so many changes that we are going through at the moment and so many dynamics in the market that we're not in a position to provide specific guidance in relation to the FY19 dividend. And that would not ordinarily be our policy, either. So we will make dividend decisions in FY19 in conjunction with the results.

As regards the treatment of restructuring costs, I mean, we're obviously a large company. We incur restructuring costs every year and so, typically, we incorporate those into our underlying earnings. However, this is a particularly significant period of change and significant restructuring costs. So the board has – basically, will take that into account when it ultimately considers the dividend.

And then as regards the timing and the composition of the 500 million, we haven't broken it down any further, but it is things like excess data charges, voice overage and a myriad of other charges that occur. And it's over a three year timeframe and

we haven't really provided guidance of how much, but we have factored that in, absolutely, into our guidance for 2019.

MR HANNAN: Thanks, guys.

MR BURLEY: Next question is from Eric Pan from JP Morgan.

MR E. PAN: Good morning, guys. Thanks for the strategy update. So on your fiscal '19 guidance, it sort of implies roughly \$1.2 billion reduction in underlying earnings. Now, you pointed out some of that is going to come from excess data and legacy voice revenue going away. Where is the rest coming from? Is the fixed broadband margin declining much quicker than which we should be expecting?

MR PENN: Look, a couple of points, Eric. I mean, firstly, which – and I perhaps didn't fully answer Kane's question because – sorry – I know you mentioned something on nbn one-offs. But the first point is 2019 is a big year for the rollout of the nbn. So \$3 billion of cumulative headwind that we're facing, a lot of that is coming in 2020. No – sorry – 2019. The precise number, we will be able to have better clarity of on once the nbn updates its plan. But Warwick already mentioned that we expect their rollout to be lower than was in their current formal plan, which means there's lower one-offs. But nonetheless the underlying is still a very material number and I think it's somewhat approximate to the extent of the impact in 2018, as well. And then the other piece that Warwick mentioned is that we do expect the market to continue to be very competitive and we expect overall two to three per cent decline across fixed and mobile, as well. And then, of course, there is – part of that is the factor that Kane sort of alluded to, which is some of the 500 million that we're expecting to lose as well. So – and then partly offset by some increased productivity.

MR PAN: And does that 500 million include the pricing rebasing that you're doing in the premier segment of the business?

MR PENN: From which? Sorry, Eric?

MR PAN: The premier segment.

MR PENN: Well, I mean, our guidance includes all of the – all of our forecasts for the business. The 500 million specifically relates to things like, as I said, out-of-bundle charges and other types of fees which we believe frustrate customers and that we will remove over time. To the extent they – that also covers premier customers, yes, it's included, but there's other competitive pressures just on the core underlying base plan pricing in the premier sector, as well.

MR PAN: Thank you.

MR BURLEY: The next question is from Eric Choi from UBS.

MR E. CHOI: Thanks, guys. I might ask three if that's all right. The first one is just a follow-up on the nbn payments. So it seems like a large part of that FY19 miss was on the one-off nbn payments, but can we just confirm whether our expectation around the total receipts has changed. So that's question 1.

MR PENN: Well, I think Warwick provided the guidance. Are you saying FY19, Eric?

MR CHOI: So I'm saying we've previously said \$4 billion post-tax NPV from the disconnection payments.

MR PENN: Yes. Yes. Sorry. So, look, the long-term total hasn't changed in a material way. There has been – if you go to nbn's plan, I mean, there's sort of various different assumptions have changed over time in terms of the number of homes, fixed wireless, etcetera. But at a macro level, that hasn't changed in a material sense. The timing of it has. I think previously in their current plan, it would have resulted in, I think, one-off payments roughly in the order of 2.4 billion, 2.3 billion in FY19, from recollection. Our latest estimate of that is around about 1.8 billion, I think you said in your guidance note there, Warwick. That is based on our best estimate. That's not nbn's current plan, but we sort of have some line of sight of what their more informal thinking is and rollout. So that's where that comes from, but they won't actually update that guidance until, I believe, they adopt their formal plan in August.

MR CHOI: That's helpful. And – sorry. Warwick?

MR BRAY: Yes. Look, I also note in terms of the timing of the one-off payments, as Andy said, the overall sum hasn't changed over the years. And also we can confirm that the natural hedge is still working. So what that means is that if an nbn one-off set of payments is delayed, we get longer to use – longer from our wholesale business and later CVC/AVC. And I can confirm that the natural hedge is still working. So if that guidance on the nbn one-off changes, it will be economically about neutral to us.

MR CHOI: And then second question just on fixed wireless. I think you're saying 25 to 30 per cent of households potentially addressable. Can you talk to how much more positive the fixed wireless economics are versus, say, nbn and whether that has been factored into that \$1.5 billion uplift in nbn charges you've got in one of the slides.

MR PENN: Well, I think I understand the first part of the question. I'm not sure I understand the second part of the question around the 1.5 billion.

MR CHOI: So I think we're saying CVC and AVC charges will result in another \$1.5 billion of COGS. Has that been netted off against potential savings from fixed wireless?

MR PENN: No. I mean, I think, if I just deal with productivity for a second. We're increasing our productivity target of 2.5 billion. Ultimately, that will enable us to offset the full weight pretty much of the CVC/AVC costs that we will adopt from nbn. We're not sort of, if you like, double-dipping in terms of costs being avoided by virtue of CVC/AVC. So I think the point on fixed wireless is the economics are just simply this. I mean obviously, there is more capex investment that is required to provide a fixed wireless solution relative to, ultimately, if it's an nbn service, which is obviously incurred through CVC/AVC costs.

And, I think, from my perspective, the most important thing is that we actually get the right solution for the customer because it is true to say that, on average, customers on fixed use 50 times as much data as those on mobile. And so it is absolutely not for everybody. But there are cohorts of customers that, ultimately, we believe would prefer to and, in fact, today ask us, they want a wireless solution. And we have the services and the products to be able to provide that.

MR CHOI: Sorry. Just last one, I just one to give some attention to this long-term ROIC target. I just want to confirm that we are, basically, guiding for underlying EBIT to be potentially higher in FY22 than FY19. Is that what we're saying?

MR BRAY: The ROIC target is as it says. And so it will depend on the two components of that. So I wouldn't go as far as that.

MR CHOI: Okay. But just to confirm, that is an underlying EBIT ex nbn one-offs that we're targeting.

MR BRAY: Yes. Yeah. Because that is at the end of the nbn rollout.

MR CHOI: Yep.

MR BRAY: Yeah. And we've also said that the underlying ROIC will go up.

MR CHOI: And this \$2 billion of assets that you're selling, is it under indexing or over indexing that 10 per cent ROIC target?

MR BRAY: That will depend on the assets that we sell, of course. But it will not make a huge difference.

MR PENN: Yeah. They're sort of independent decisions, if I can put it that way. I mean, we know that we need to get a good ROIC post the nbn period. And our target is to get that to 10 per cent, which means we've got to, obviously, drive our business performance and manage our assets really well. Separate to that, but it will, obviously, have an impact on the ROIC, is that we will commit to monetise up to \$2 billion of assets to strengthen the balance sheet.

MR BURLEY: Okay. Our next question is from Roger Samuel from CLSA.

MR R. SAMUEL: Yeah. Thank you. I've got three as well, if I may. The first one is just on your cost out targets. So it's quite interesting to see that you increase the cost target by an extra \$1 billion within the space of six months or so. I'm just wondering, what gives management the confidence that it's going to hit the 2.5 billion target?

MR PENN: Look, I think the big inflection, Roger, is this – and Vicki and Brendon sort of spoke to it, is that we believe we're at an inflection point as an industry where we need to more boldly change the fundamental nature of telecommunications products and services. We've been trying to transition to the new but manage the existing at the same time and we've been digitising and reworking processes around a complex environment. And, fundamentally, we're not going to get the sort of scale of changes that we need to. And, most importantly, the scale of improvement to

customer experience unless we tackle the product design at the front end. And, in doing that, we're also at the same time, leveraging the investments we've made and putting it onto a whole new technology stack which you heard from Robyn and from Brendon and from Vicki. And it is the combination of those two things that enables us to drive massive simplicity into the business and that will improve the – enable us to increase our productivity aspirations. That's the big inflection point.

MR SAMUEL: Sure. And two quick questions, just to pull up on the question asked previously, just on fixed wireless. Presumably, you're going to bypass the nbn. And I'm just wondering how much or what the impact on your one-off nbn receipts if you were to bypass the nbn in some of those households.

MR PENN: This isn't about bypassing the nbn. This is not - - -

MR SAMUEL: Well, yes, I know. But you've mentioned that you can address probably 20

MR PENN: Sure.

MR SAMUEL: Okay.

MR PENN: This is – this is about giving customers what customers are looking for and what customers want. And it's a simple point that more customers are going to be looking for a wireless solution than an nbn solution and we want to make sure that we provide the products and services to support them. Now, to the extent customers are not on a fixed service when the nbn comes along and they don't transfer over, then, that does have an impact on nbn payments to Telstra from a one-off perspective.

But, ultimately, we have to give customers what they want. And we've got the capability, and you heard from Robyn, the technology to support that. There's still, by the way, a lot of innovation to happen in the whole fixed wireless landscape, particularly with 5G. So what's really important here is that customers get provided the right products and service for their needs. And so, you've got lots of customers are using high def, large screens in home, downloading and streaming a lot of data. A fixed wireless solution is not necessarily the right solution for them.

MR SAMUEL: Yep. And just one last one, just on the asset sales, which is worth about \$2 billion, can you give us more details in terms of what asserts you're thinking of selling and how you're going to redeploy the cash?

MR PENN: Yeah. Look, I mean, the second part about redeploying the cash, this is about strengthening the balance sheet.

MR SAMUEL: Right.

MR PENN: Look, I can't comment further on the assets, fundamentally, because that's going to give away our competitive position. I don't want to be sort of talking about things that we may or not be doing for confidentiality reasons. But this is a commitment to strengthen the balance sheet. It's a commitment to monetise \$2 billion worth of assets. We've got a very strong asset base right the way across the

company. And I think we've demonstrated in the past, a willingness to be prudent in that regard and it's just a commitment that we'll continue to do so. But I think I don't want to get drawn into talking about the specific assets. I just think that would sort of disadvantage the company from a competitive standpoint.

MR SAMUEL: Sure. Thank you.

MR BURLEY: Our next question is from Raymond Tong from Evans & Partners.

MR R. TONG: Good afternoon, just a few questions from me. Just firstly, just on the new digital platforms and moving to that over the next few years. I mean, it can't be easy for a company like Telstra to do that. And I think you guys probably tried that over the last 10 years, IT simplification. And, I suppose, what have you learned over the last few years and what do you think are going to be the challenges to get there?

MR PENN: Maybe I shouldn't answer this sort of question. Maybe I'll throw to Vicki here and Robyn, in particular.

MS DENHOLM: Yeah. Well, I'm happy to start.

MR PENN: Yeah. Go.

MS DENHOLM: And then, maybe, actually, my business colleagues can answer as well. So upfront in my presentation I talked through three elements. And I think one of the key things for us is that, actually, it's fundamentally important for the business areas to actually adopt the new technology. There isn't another choice. So, basically, we've designed the platform so that it can be flexible enough to work through the different business areas that we have. And the other thing is what Vicki talked about: simplifying the future product construct makes it much easier. That strategy of getting to the new faster is actually a very liberating set of decisions that we've made which actually helps a lot in the digital side. Because most companies would say it's actually not the technology that's hard, it's actually the business decisions, particularly for a company as successful as Telstra has been and as long-served as Telstra has been. So making those decisions over the last months and years has actually helped us to lean in fast to that stack.

MR RILEY: Yeah. I would say, just – maybe just to add a little bit, if we look at Enterprise, we haven't had a stack. We haven't had a new stack. We haven't had any major investment. And I won't go into why that is but it's just that's the history. But in a year, we stood up the new stack, we've launched a set of new products on it and we've dramatically shrunk our cycle times on product development and deployment. We've got all of our frontline and channels onto Salesforce and it's actually the whole – the whole thing is accelerating. And that's why we've got the confidence to stand before all of you today and make the statements that we've made about what we're now able to go on and do.

But it's having the investment, which we've got. It's the business case. You've got the business case to close. I think some of the tech elements probably weren't there a few years ago which made it hard to get it closed. And it's business led, customer first.

MS BRADY: And I would just add, from Consumer and Small Business, obviously, seeing the success in Enterprise of moving across as fast as they have, it gives us a lot of confidence. These platforms we're moving to are proven platforms. They're not new technologies on their own. Big global companies are all using them. And, undoubtedly, as Robyn said, not trying to drag the complexity of the old world with us, for me, gives me great confidence. Because where we're headed is just so much better, whether it's for customers, whether it's for our teams serving our customers or whether it's from taking cost and making our business much more simple.

MR TONG: Maybe just a question for Warwick in that, can you give a sense of how much of that two and a half billion dollar cost out is linked to the digitisation?

MR BRAY: Look, that's really an important part of it. Automation, then, also, process improvement. But I'd also say that the simplification of the products is really important and so I don't know whether you can separate that from digitisation but as an ex product manager myself, I'm just so thrilled with seeing the reduction in the number of products because I know just the ongoing costs that that causes around the corporation. So digitisation is very important, but the product simplification is really important as well. And I'd also note the organisation changes are very important here as well, and Alex, you might want to say a few more points on the organisation changes.

MS BADENOCH: Look, I think we've probably largely covered it. The linkage, as Warwick said, between digitisation, product simplification and then how we can change our structure and organisation, they're hard to separate because they're interrelated, but we've talked about the flattening of our structure and the overall reduction in workforce, which is a critical part of the overall additional productivity that we've committed to.

MR BURLEY: Thanks, Raymond.

MR TONG: Yeah. Just one final question on just InfraCo. Just curious to understand how you've chosen to put what assets you have into that vehicle. I can understand why mobile is on the other side. Things like the fibre assets which I think are probably quite important to your business, Brendon. Why have you sort of chosen to put that into that vehicle which could potentially get demerged at some point?

MR PENN: Well, I think there's – there's obviously a lot of fibre assets that we have. The focus has been – that's the first point. Second point, we haven't made a decision to demerge, and that's not a decision we're even going to confront ahead of the end of the rollout of the nbn, but this does give us optionality in that regard. What we've looked at is how do we make sure we get the best customer outcome and maintain our ability to create strategic differentiation, and that's hence what's driven basically the approach. Now, it started with infrastructure assets in Infrastructure Co, and then what else do we need within the business. So we talked about mobiles and we talked a lot about Enterprise as well. Brendon, I'm not sure if you want to comment on how you think this works for Enterprise customers.

MR RILEY: Well, look, definitely one of the pain points we have is the lead times and cycle times on the commercial works process, and I know if that was significantly shortened and improved, then that would be welcomed broadly by our Enterprise customers. So I think it will help us with rate and pace, responsiveness for service levels, getting them a little bit more better in line to what the market wants.

MR PENN: And I think the last thing to say, Raymond, is – as well as – we've done an enormous amount of work on this, and we will be up and fully operational within sort of 12 months. But during that 12 months, we've got to do – go down even to a further level of detail in the assets. We're talking hundreds of thousands of kilometres of fibre, millions of lines of assets which actually underset the asset register, so there's a lot of work still to go through on this.

MR TONG: Great. Thank you.

MR BURLEY: Thanks, Raymond. Nick Harris from Morgan.

MR N. HARRIS: Thanks, Nathan. I'm just interested in a little bit more detail on 5G and capex. Obviously there's a lot happening in the next few years and it's still very much a moving feast, but I guess the first question from me is should we be expecting a big step-up in capex, or is a lot of this already captured in the numbers, particularly the three billion extra that you've talked about, and guidance for next year.

MR PENN: Sure. I mean, Robyn is probably best placed to - - -

MS DENHOLM: Yeah. I mean, what we've talked about today is obviously in the capex envelope that Warwick outlined in terms of percentages. Clearly as we start deploying in major cities, if we see an opportunity in a business case that actually causes us to accelerate, we'll – it takes a while to build it, so we'll talk about that at that time, but from our perspective, it's included in the capex envelope that we shared.

MR PENN: And that's partly because Robyn and the team have put a lot of – because it's not just actually the RAN equipment. It's actually in the core. So the whole upgraded optical fibre network, the next gen OSS, all of the platform work that we've been talking is actually to support the capacity. Now, to Robyn's point, we anticipate being able to roll out 5G broadly within our midterm capex to sales envelope. What it does depend on to some degree as well, though, is if there is very significant customer demand for wireless and fixed wireless solutions, that has some implications, so we'll need to work through that at the time. But our guidance at the moment is 16 to 18 per cent capex this year. That basically enables us to effectively complete the strategic investments we've been making. To the extent that we don't get to 18 per cent, we may take a little bit of that over into FY20, but our sort of FY20 and medium-term guidance is around 14 per cent.

MR HARRIS: Thank you. Just two other questions from me. I'm just interested – I know you don't typically talk about competitors, but on the mobile front we've actually finally got a little bit of detail about what TPG is doing, and my personal view is – well, clearly it's a mobile network you can't make calls on, is what they've

said for starters, so it looks to me like it's not necessarily positioned at Telstra, but maybe trying to work around the nbn. I'm just wondering, do you have any comments now that you know a little bit about what they're looking to do, on how serious a threat you consider it for Telstra?

MR PENN: Look, I mean, I think the first thing I would say is that I take every single competitor very seriously. I mean, TPG and David and his team have built a phenomenal business over the last 20 years and should never be underestimated. We've got a very clear strategy in terms of how we respond. I might get sort of Vicki to talk about that a little bit, but we take everything at face value and we take it – take it seriously, but we also think we're very well positioned in the investments that we've been making and particularly some of the changes we're making now, and also what we're doing with Belong. Vicki?

MS BRADY: Yeah. I mean, seeing their initial announcements around pricing was probably price-point wise where we expected. We had anticipated TPG would be attractive down at the more price-sensitive end of the market. As we talked about last Investor Update, we took Belong into the mobile sector and it's continued to perform well for us, doing a job addressing those customer needs in that part of the market with - - -

MR PENN: And it has a voice service?

MS BRADY: It does have a voice service, indeed. Indeed. We actually made changes post-launch, and that's included in the plans for Belong, and that's been really well received by customers. So we sit here today looking at how Belong's performing. It's doing the job it needs to do for us for those customers, and keeping the Telstra brand at the premium end of the market is working.

MR HARRIS: Just one last question, if that's okay. Just the comment kept popping up on the Infrastructure Co business about the potential down the track for a strategic to end up on that register. I'm just wondering if you can put a little bit of colour on that. Are you talking potentially putting new equity into that, or could it be, like an asset swap or someone extinguishing liability and vending their liability in or something like that?

MR PENN: Yeah. Look, I think the – I mean, I think the bottom line is telecommunications infrastructure is phenomenally important as we increasingly depend on connectivity and it's very, very valuable. We have by a country mile the best infrastructure, the best networks in the country, and we're constantly looking at ways how we can maximise shareholder value, and one of the ways in which we believe we can do that is to provide greater transparency to those assets, manage them even more effectively than we have in the past, and actually think about the sort of optionality that's available to us in the future, particularly, as I say, in a post-nbn world. The optionality that we've got to further enhance value for shareholders. So, I mean, all of the things that you've sort of mentioned are obviously things that could be considered down the path. Now, we're not going to – we don't expect to really look at that or consider that before the rollout of the nbn, and also partly because importantly, that's also the same period of the rollout of 5G as well. But beyond that and in the future, this sets us up to be in a great position.

MR BURLEY: Okay. Thank you, Nick. Now, we're going to go to the phone line now. We've got three questions on the line. The first question is from Andrew Levy from Macquarie Securities.

MR A. LEVY: Thanks, Nathan. I've just got the one question. Just wanted to get some more colour from Andy and Vicki on the mobile changes. We obviously haven't seen the plan, so it's sort of hard to judge from our end, but while plan simplification, empowering customers to be able to change plans by digital channels is very good from a customer outcome, I'm just wondering how you're thinking about managing it down and optimisation from your existing phases as you implement it and what gives you the confidence that you can avoid a bigger ARPU hit than you're expecting from just the average charges. Thanks.

MR PENN: Well, thanks, Andrew. I'll make a comment and then Vicki may want to make – to add as well. I mean, I think the biggest single risk for us is if we don't do this. Because basically I think customers and Australians are frustrated with the nature of telecommunications products and services. It's a very competitive environment. I think we have the opportunity to move to a new world, radically simplify the products, eliminate many of the things that frustrated customers. Yes, we will put certain ARPUs at risk, and yes, that may have an impact in the short term, but in the long term I believe it will put us in a much stronger position, a much better customer experience and drive massive simplicity into the business, and that's the bold step that we're taking today. But Vicki?

MS BRADY: Yeah. No. Andrew, I appreciate you haven't seen the plans. Obviously for competitive reasons we're not going to lay out the full roadmap to June 2019. I would just make a couple of comments. The work we're doing and the plans we've got designed, we are also aware customers' demand for data continues to grow. So the way we are designing the plans is there will obviously be good reasons for customers to commit to higher minimum monthly commitments in the design of these plans, plus the incentives we put around it for our customers to have more services with us which again, we continue to see as a big opportunity in the market here in Australia. We know our customers continue to split their spend across competitors and so those things factor very heavily in the design of the new plans, which you will get to see as we get closer to each of those launches.

MR BURLEY: Thank you, Andrew.

MR LEVY: Who do you look to globally that has sort of implemented in the same way – I know Verizon recently went sort of unlimited. But who are you modelling this quite dramatic change off?

MR PENN: Yes. No. Sorry. I think Andrew's question we couldn't hear that well, but I think Andrew's question was a reference, where do you look globally to see what's happening. Well, of course, every single market is different, and we would argue that Australia and Telstra is one of the leading-edge markets in the world. So there isn't necessarily an exact benchmark, but I think looking to the US is interesting, particularly as you sort of see how that market has played out with T Mobile and Verizon and AT&T. And it's interesting – we have a director on our board, Roy Chestnutt, who recently joined us who for the last six or seven years has

been the global head of strategy and M&A for Verizon. He stepped down from full-time executive roles at the end of the calendar year last year and he has just recently joined our board. And without disclosing board discussions, as such, but, I mean, I think the point is that Verizon, with the benefit of hindsight, would have definitely sort of faced into some of the disruption that was happening sooner than perhaps they may have done, which is not being critical of Verizon. Verizon is an amazing organisation – have enormous respect. But that's one of the key learnings for us. It's a question of at what point do you need to lead the change and lead the disruption rather than let it happen to you. And we believe we're at that inflection point.

MR BURLEY: Okay. Thank you, Andrew. Next question is from Ian Martin from New Street Research.

MR I. MARTIN: Hi. Thanks for that. Look, I think it's potentially a great plan. I mean, certainly, you need to adjust the business model and respond to those changes in the market. And it's good to see that the first part of that about how you deliver value to the customers. But my question is more on the structural change. I've got three questions here if you don't mind. First, given the issues in the sector and what Telstra has been through in the past, is there any regulatory or policy pressure behind that decision to create Infrastructure Co? My concern there is that we've seen examples in the past where Telstra has had to put their hands in their pockets to help prop up the nbn business model. So is this part of a general nbn fix?

Secondly and kind of more fundamentally, you talk about commercial arrangements between Telstra Retail and this Infrastructure Co. And the value of the investment in the infrastructure being so great. That value really only is realised by being able to put the traffic on the network and being able to monetise that traffic. And no one else can do that to the scale and extent that Telstra can. So how do you capture that benefit of – and particularly the impact on capital risk in those commercial arrangements is the second question. And, thirdly, last year, you talked to nbn Co about securitising the long-term lease payments. Are there implications here in this structural change for being – perhaps being able to securitise or realise the value in that lease?

MR PENN: Thanks, Ian, Will jump in as well, but the first – let me answer the last question first which is – really goes to, I guess, nbn and/or, indeed, any other approval. So we do not envisage that we require any approvals to do what we're doing. We're setting up an internal business unit to better manage and to run our infrastructure assets. If we chose to do something more than that in the future, I've got no doubt there would be all sorts of regulatory and other approval considerations, but we're not right now.

The second point – let me go to your first point, which is, is this motivated or, rather, is this precipitated by any form of regulatory discussion and/or otherwise in the background. And the simple is, Ian, no. This isn't part of a scheme or any other type of arrangement. This is a Telstra-only decision. And I think your point about the monetisation initiative we looked at. And I mentioned this in my address – is that what sat behind that was a recognition of the value of the assets and how do we find ways and actually bringing that to life. We weren't able to conclude that transaction. What it did do though – it did do is it highlighted, effectively, the value in a very commercial way of those payments where, essentially, if you grossed it up it was about \$15 billion worth of value for the stream of payments. So I think it was

helpful and highlighted in that sense the value of the asset, which is really, again, it's – it's, really, how do we do that. And we're looking to continue to do that for shareholders.

I mean, to your point – I think the middle point was really that to realise that you've got to get more traffic on the network. And, yes, that's right. I think there is a valuation point independent of that, but then that's also right. And it has got three customers Will, it has got Telstra, it has got Telstra Wholesale customers, and it has also got nbn co. And so I think if we set it up in the way in which we were envisaging. I think that will force us to look more broadly at opportunities to grow value and – sorry – to grow traffic on that infrastructure beyond just Telstra.

MR IRVING: Yes. If you think about the wide-band fibre network for example – and Brendon mentioned this before. Both for our Wholesale customer base and directly to Enterprise customers, we've got a lot of opportunity and a lot of work to do to get better at the delivery of things like wide-band wavelength. Those kind of industrial services. And that's where InfraCo – its objective is to maximise the use, the traffic, the value of those assets. It is absolutely focused on selling into Enterprise internally as well as to the external market. And we're in competition with other infrastructure builders when we do that.

MR PENN: And I think there will be opportunities for us to put more traffic on the network independent of Telstra, and I think this will force us to do it. Now, that may be more on the margin and we're obviously, we will make the right strategic decisions, particularly around mobile, defending our differentiation, but I think it will force us to better optimise the use of the asset, as well.

MR BURLEY: Thank you, Ian.

MR MARTIN: Very good.

MR BURLEY: The next question is from Brian Han from Morningstar.

MR B. HAN: Thanks, Nathan. Just two very quick questions, gentlemen. Is there any overlap between the \$2.5 billion in the fixed cost-out and the \$500 million benefit on the strategic capex? As for the \$2 billion asset sale program, is that figure net of any potential remediation or other costs associated with the monetisation program?

MR PENN: Yes. Look, why don't I just sort of comment on the last question first and maybe Warwick can comment on the overlap point on productivity. The 2 billion is a gross monetisation number – provide liquidity, strengthen the balance sheet, costs of remediation, book values, sales costs – that sort of stuff. Obviously, it will be a function of the nature of the underlying asset. At this stage, we are committing that we can monetise up to 2 billion gross in terms of proceeds coming into the company. But on the overlap point, Warwick?

MR BRAY: Yes. There is overlap. So with the strategic investment program, we said that there would be more than \$500 million worth of benefits. And we said that there would be more revenue benefits than cost benefits. But broadly, if you talk

about \$200 million cost benefits from the strategic investment program, that's part of the \$2.5 billion and it's not additive. So that bit is an overlap.

MR PENN: And frankly, what this shows is that the benefit from that strategic investment program is actually a lot more than 500 million we originally said because it is fundamentally these investments with this strategy that's enabling us to be much more ambitious and set higher targets on productivity.

MR BURLEY: Okay. Thank you, Brian. Our last question we will take from the room. Eric Choi from UBS.

MR CHOI: Sorry. Just one follow-up and, as you just mentioned Andy, it seems like a large part of the short-term rebate is you taking the fight to mobile competitors. If that's true, I'm just wondering if you can tell us what tools you might have that perhaps your competitors don't for you to weather this shrinking in industry free cash flows. Obviously, there's cost out, but if I look at Optus, perhaps they're not willing to risk the dividend back to their shareholders, but are you perhaps more willing to be flexible?

MR PENN: Well, look, I mean, I think we've definitely focused on the long term and making sure that we are taking the right steps now to make sure we have a growing and successful business in the long term. And I think we are taking this as an inflection point. We are being bolder. The capabilities and the things that we have – we have amazing distribution. We've got the best network in the country. We've made these foundational investments in the systems and the infrastructure. I know the market has been anxious to see that it's not just catch-up capex that we're investing and we're delivering and hopefully we've demonstrated that today. And we're biting the bullet and saying, well, we're prepared to give up \$500 million worth of revenue. So, I mean, I can't say how the competitors are going to respond, but we believe this is the right move.

MR BURLEY: Thank you, Eric. With that, I think we will close the analyst Q and A and we will switch to a media Q and A.

RECORDING SUSPENDED [12.41 pm]

RECORDING RESUMED [12.44 pm]

MR J. LAIRD: Good afternoon, everybody. Now, we'll convert to the media portion of the strategy update. So I'll just hand straight to Andy. We'll go, first, to questions in the room. You can go to one of the microphones, Petroc, if you're interested. You just walked straight past it, I think.

MR A. PENN: I think, yeah, we should use the mics just because that enables.....

MR LAIRD: We're still being webcast. Okay. Petroc Wilton, CommsDay.

MR P. WILTON: Thanks, Jason. Yeah. Petroc Wilton from CommsDay, like he said. Andy, you were quite clear about leading on 5G. In practical terms, you don't have the spectrum yet. That's, obviously, going to auction. Optus is going to launch in January and say they've got 5G happening first. We know that's fixed. We know that's a limited use case. But you're launching commercially in 2020, according to the slides. So how do you kind of position that publicly to ensure that everyone knows that you're actually leading on 5G?

MR PENN: Yeah. No. Look, I think, the reality is 5G is going to have three phases. Phase 1 is sort of right where we are now, pre-standards, early use cases. But the bottom line is that one wouldn't – well, we don't expect there to be mainstream devices available well into 2019 and into 2020. By that, I mean handset devices. And, then, of course, 5G offers some very interesting long-term opportunities as well. Obviously, we do have some 5G spectrum at the moment. But we, obviously, will intend to participate in acquiring more spectrum because that's critically important to us, as we have done in the past as well.

And we have been making very, very significant investments in the core capacity because, as I said a little bit earlier this morning, 5G is not just about the radio access equipment. It's about the whole core network configuration. And as we have done previously in the past with 3G, 4G and 5G, we intend to lead. And it's not just necessarily about who's out of the door first. It's about actually providing commercial, viable, high quality 5G network. And that's what we're absolutely committed to do.

MR S. CONN: Stewart Conn of Freelancer. Question in InfraCo. It was my understanding from the presentation, from the assets it will have, the only services it will be able to provide to wholesale customers is basic connectivity. So what about your MVNO customers and the other wholesale customers who buy services from Telstra? Will InfraCo buy those from Telstra and resell them to your wholesale customers or will they continue to get those services from Telstra?

MR PENN: Look, I've got Will Irving here who's done all of the work on InfraCo. I'll get him – I'll get him a mic and you can ask. But, I mean, we're absolutely committed to continue to support our MVNO customers. But, Will, you might want to sort of cover off how that's going to work.

MR W. IRVING: At this point, InfraCo is a business unit rather than a sort of totally separate entity. We haven't demerged it. So wholesale channel is the channel for MVNO and all of the other things. So if – in a future world it might buy in and resell but, at this point, it remains the one entity. So it works, from a wholesale perspective, the same way it does today.

MR CONN: So it is going to have the business of Telstra wholesale – so it's not going to be totally quarantined, which is the impression I was given from the presentation, that it would be, functionally, a separate entity with its own assets and its own books and everything else. That's - - -

MR IRVING: It has - - -

MR CONN: It's not quite that clear cut

MR IRVING: It has its assets and its books. It sells services into Telstra and it buys services from Telstra as well.

MR CONN: It buys them yep.

MR IRVING: So if you want to think about it simplistically as reselling, but that's exactly what wholesale does today.

MR CONN: I know. Yes. Yep. Okay. Thank you.

MR LAIRD: Thank you. Our next question is from Corinne at ZDNet.

MS C. REICHERT: Hi, Andy. You mentioned driving down the cost per gigabyte of data of 5G. How exactly are you planning to do this and how will this affect mobile business?

MR PENN: Well, thanks, Corinne. Well, I mean, fundamentally, this is one of the great advantages of 5G technology. I mean, 5G is going to be able to solve for a number of things but one of the things it will solve for is, basically, driving down the cost per gigabyte of data by better capacity, better speeds through the technology. And with data volumes increasing in the order of 40 to 50 per cent per annum, it's crucial that we're able to do that to, basically, meet the needs and demands of greater data volumes going over the mobile network. And that's why we will roll out fast, we will roll out extensively as mainstream 5G becomes available.

MS REICHERT: And what have you got left to do in your preparation for the 2019 launch?

MR PENN: Well, I mean, it's not so much necessarily what we've got to do. The 5G standards have not yet been set. I think, as you know, we're hosting 3GPP, which is the global standard setting body on the Gold Coast in September of this year. We think that's going to be quite a pivotal meeting. But that doesn't mean to say they'll come out of it with standards. We hope they will and – but it's an ongoing process. And, then, of course, once the standards are actually set, then, all of the various different global players in the ecosystem, so the equipment manufacturers, radio access equipment, chipset manufacturers, they can all then sort of start to build compatible cases. So a lot of this pre 5G stuff you're seeing at the moment, and to Petroc's question earlier, I mean, we launched 5G on the Gold Coast four months ago.

We were basically the first and only 5G Wi-Fi enabled network in the world four, five months ago. So I can sort of say that we've already launched 5G. So the point is that in these early stages, you'll see a lot of sort of pre 5G standard sort of use cases. But the main game will, obviously, be when the standards are set and when the equipment manufacturers are building network equipment at scale. And we're very much sort of front and centre of that. So we're going a lot on innovation, delivering a lot of really interesting things, trialling a lot of really interesting things. And we're very, very lock step with the global players in this whole ecosystem and we'll be launching loud and fast.

MS REICHERT: Thank you.

MR LAIRD: Our next question is from the Financial Times.

MR J. SMYTH: Hello. Jamie Smyth. I've got two separate questions if that's okay. Is it fair enough to characterise today's announcement as the biggest shakeup for Telstra since privatisation? And why did it take so long to get to this point? Does that suggest there was a lack of urgency on previous Telstra management? Or is it something to do with the nbn and the rather chaotic sort of rollout of broadband in Australia?

MR PENN: I'll leave the characterisation to you as the writer, if I may. But, look, this is a very important announcement today. I think the telecommunications sector, not just in Australia, by the way, but globally, is at a really critical point. And if you look at telecommunications, demand for the core connectivity has been growing very, very significantly over the last sort of 10 to 15 years as people have gone from using it from just pure voice and messaging to, essentially, now it's embedded in many, many businesses in our daily lives. And, of course, as we move to this next wave of technology, which is 5G with software defined network, the Internet of Things, it's going to be transformative in terms of the impact that it has on society, the economic value that it delivers.

I think, at the same time, customers, because of their dependency on connectivity, are also becoming more frustrated and more challenged with the nature of the way telcos have done business in the past, and I think it's these two things that are coming together that has really crystallised us to take the bold step and the leadership step and say, no, we're going to redefine – we're going to change telecommunications products and services for customers, and build the capabilities into the new world. So I think it's – I mean, the nbn is clearly very relevant in Australia, because that just adds another dimension to this overall fabric of the industry, but some of the characteristics I'm talking about are replicated globally as well.

MR SMYTH: And just one other one. The government looks very likely that it's going to go ahead and ban Huawei from taking part in the 5G rollout. Do Huawei provide Telstra with any 4G kit and equipment? And what does it mean if Huawei are actually banned from this? Will it increase the cost of rolling out the 5G network? Could that affect Telstra? Is it a 20 per cent increase in cost, or what's the situation?

MR PENN: Look, it's not for me obviously to comment on government policy. That's a matter, obviously, that the government will be considering regarding all of the various different equipment providers. We typically, and from our radio access equipment and in our core, we've typically had big partnerships with people like Cisco and Ericsson. Huawei don't currently provide 4G equipment to us, but we have an enormous amount of regard for Huawei as an organisation. They clearly – they've built very significant capabilities. But look, ultimately that's really a matter for government, and we'll monitor it because it is definitely very relevant for our own decision-making processes and considerations.

MR SMYTH: And just on costs, does it increase costs if they're not in the competition?

MR PENN: I think let's see where the government gets to and then I'd probably be in a better position to comment on that then.

MR LAIRD: Thanks, Jamie. We'll take a call from Conferlink, Tom Westbrook at Reuters.

MR T. WESTBROOK: Yeah, hi, Andy. It's Tom Westbrook at Reuters here. Where is the growth going to come from for Telstra?

MR PENN: Well, I would say – I would say two things, Tom. Firstly, I would say that I believe that if we can radically change the way in which we provide our products and services to customers, that will put at risk some of the revenues that we have today, but ultimately it will lead to more customers with more services. By the way, we have continued to grow our customers, and in fact in the last quarter, we had again further strong growth in terms of the number of customers. We predict the overall industry will decline next year by two to three per cent, but we also believe if we can get this right in the long term, that will provide growth in terms of the number of customers and more services from our existing customers.

The other big area of growth is fundamentally, as we transition to the world of 5G and the Internet of Things and software-defined networking, because we are already showing very, very significant growth. Brendon spoke earlier this morning. Our IoT business grew 30 per cent this year. We're getting growth in our cloud business, in our managed security business, so many of the capabilities that we're building from a technology point of view are giving us the opportunity to not only take advantage of ongoing demand for connectivity, which is growing in demand but also coming down in sort of price per gigabyte a data, but in addition to that, getting the growth above the – above the layer of the network.

But the other fundamental point, though, is that we are right in the – I guess in the depths of the transition to the nbn, and as everybody knows, that has a very material impact on Telstra's business because it takes our wholesale business away. It's changed the dynamics in the fixed market. It's changed the dynamics in the – in the mobile market. So the bottom line is we are very optimistic about the long term. We reckon we're making the right investments. We're in a very good position, but we've got to navigate through a very difficult and challenging short term.

MR WESTBROOK: Yeah, thanks, Andy. Just on that long term, I mean, at the moment, these businesses – cyber security business and similar ones have low margins, single-digit margins, much, much lower than mobile and fixed line business. Do you see that changing in the future?

MR PENN: Well, I think there's a couple of points there. I mean, yes, services businesses tend to have lower margins than core Telco businesses, but they also have lower capex, and so from a free cash flow perspective, the gap is narrower. Secondly, they also support our core telco business, and so we find that customers that buy managed security, managed cloud, managed network services from us also buy connectivity for us and vice versa, and so there is a great synergy between those types of businesses as well.

And then thirdly, we are increasingly building our own IP into our offerings as well, so quite often on some of the services type businesses that may include IP from another party or from another partner that we're incorporating into a service. Where we can build the IP ourselves, we obviously get better rewarded for it. So our managed security business, as an example, we're building a lot of our IP ourselves, and even in the consumer sector as well. Telstra TV is good example. The user interface on Telstra TV is a Telstra developed application, and it's very, very good.

MR LAIRD: Thanks, Andy. Thanks, Tom. There are no more questions in the room, so at this stage, given it's almost 1 o'clock, we'll call it there. So thank you, everybody, for watching the webcast and being in the room today. Thanks, Andy.

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[12.58 pm]