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ELECTRONIC LODGEMENT

Dear Sir or Madam

Macquarie Australia Conference – presentation and speech

In accordance with the Listing Rules, I attach a copy of a presentation and speech to be delivered by Warwick Bray, Chief Financial Officer, at the Macquarie Australia Conference today, for release to the market.

Yours faithfully

Sue Laver
Company Secretary



Disclaimer

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Agenda

Strategy and market context
Strategic investment program
Financial strategy




















Our purpose, vision and strategy

Purpose	To create a brilliant connected future for everyone		
Vision	To be a world class technology company that empowers people to connect		
Brand	To create better ways to empower everyone to thrive in a connected world		
Strategic pillars	Deliver brilliant customer experiences	Drive value and growth from the core	Build new growth businesses close to the core
			
Strategic enablers	Networks for the future	Deliver a seamless end to end usage experience across our networks and build the network 2020 architecture	Strategic investment of up to \$3 billion from FY17 – FY19
	Digitisation	Digitise our systems and processes to enable brilliant customer experiences and simplify our ways of working	
	Culture & capabilities	Build and enhance priority capabilities and drive critical cultural shifts (simplicity and accountability)	







We are making good progress on our strategy...

Deliver brilliant customer experiences	Drive value and growth from the core	Build new growth businesses close to the core
     	     	     
Better value fixed bundles - unlimited data + Telstra TV + Foxtel Now	Strong 1H18 mobile net adds – 20th consecutive half increase in mobile customer numbers	NAS revenue growth +14.1% 1H18
Better nbn connection experience: <ul style="list-style-type: none">Upgraded almost 1m customers to Standard Plus NBN50Offering seamless connection to more customers with Smart ModemDedicated support teams	nbn market share 51% ex-satellite 1H18	Enhanced cyber security offerings including opening new security operations centres
Introduced nbn Satisfaction Guarantee	Strong momentum in productivity – core fixed costs decline \$249m 1H18	Investment in two subsea cables from Hong Kong to the US and Perth to Singapore and Jakarta
Enhanced mobile plans with more data, more media and more services	>92% of the Australian population have access to double the mobile speeds of our original 4G through 4GX	Strong growth in Internet of Things (IoT) business – almost \$200m in revenue



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... in a challenging market

Migration to nbn	Competitive dynamics	Technological change	Transition to 5G
			
Our response	Stepping up how we compete in market particularly leveraging our multi-brand strategy		
	Increasing our focus on reducing costs		
	Strategic investment program - investing up to \$3bn incremental capex over 3 years to 30 June 2019		



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We are making progress on our strategic investment program

Digitisation	Networks for the future
Culture & capabilities	
	
Building people capability for the future	Supporting mobile differentiation, coverage, speed and resilience
Improvements in digital self service channels	Building platforms we need for the future including IoT, SDN and NFV
Shifting to a new IP enabled digital enterprise product set	Continue to extend our core backbone infrastructure to support 5x the 2016 capacity by 2020 and improved resilience
Shifting to cloud based core systems	



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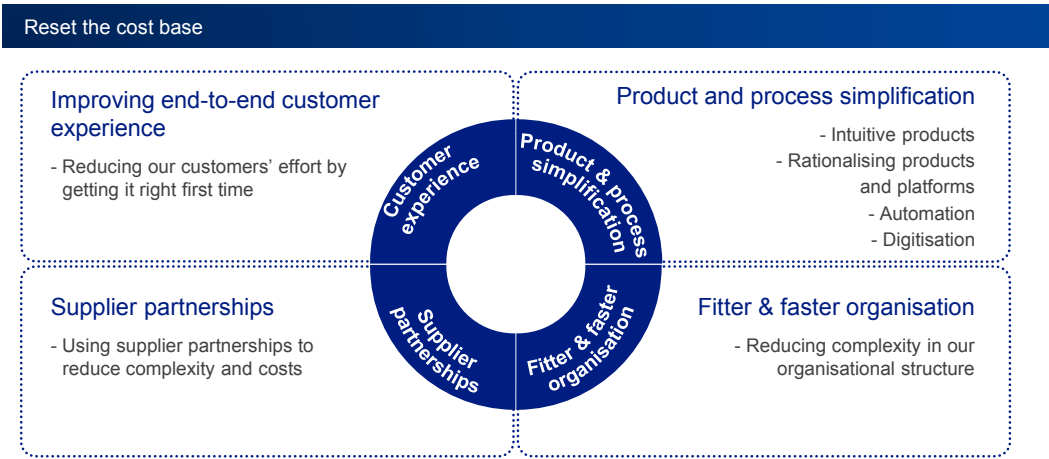
Our financial strategy supports our corporate strategy

Grow our underlying businesses	- Targeting growth in mobile EBITDA - Improvement in nbn reseller margins - Continued growth in our NAS business and IP products
Reset the cost base	- Accelerated and increased productivity target of \$1.5bn by FY22
Deliver returns on our capital investments	- Expect to achieve full run rate of \$500m EBITDA benefits by FY21 with \$100m being delivered this financial year
Manage timing and conversion of cash	- Continue to manage the efficiency and timing of converting EBITDA to cash and EPS
Fiscal discipline – Capital Management Framework	



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We are making progress on our productivity program



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Capital Management Framework

FISCAL DISCIPLINE			
OBJECTIVES	1 MAXIMISING RETURNS FOR SHAREHOLDERS	2 MAINTAINING FINANCIAL STRENGTH	3 RETAIN FINANCIAL FLEXIBILITY
PRINCIPLES	1. We remain committed to retain balance sheet settings consistent with an A band credit rating 2. Pay fully-franked ordinary dividend of 70-90% of underlying earnings ^{1,2} 3. Target capex/sales ratio of ~14% excluding spectrum from FY20 ^{4,5} 4. Maintain flexibility for portfolio management and to make strategic investments		
Return in the order of 75% of net one-off nbn™ receipts to shareholders over time via fully-franked special dividends ^{2,3}			
Capex/sales ratio ^{4,5} of ~18% in FY18 and FY19			

1. Underlying earnings is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 2).
2. "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
3. Return subject to no unexpected material events, assumes nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017 and receipt of associated one-offs, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.
4. Capex excludes expenditure on spectrum, measured on an accrued basis. Capex excludes externally funded capex.
5. The guidance also assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017.



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Summary

nbn impact and increased competition highlights importance of our strategic investment program

Achieving growth in mobile is critical to our financial strategy

We are increasing our focus on reducing costs and have stepped up our commitment

We are on track to deliver benefits from our strategic investment program



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Slide - Agenda

Good morning. It is great to be here. Thank you Andrew and Macquarie for putting on this important conference.

This is a critical time for the telecommunications industry.

In the Australian market, existing economics are being challenged with the roll out of the nbn, increased competition and the expected entrance of a fourth mobile network operator.

The industry globally is approaching the transition to the next generation of mobile technology – 5G.

I'm excited about this transition to 5G because I've been in the industry for 1G, 2G, 3G and 4G; and have seen the substantial benefits that each G has created for customers and the industry overall.

It is against this background that I will talk about three broad topics –

- Telstra's strategy and market challenges
- The strategic investments we are making in response, and
- our financial strategy.

Slide – Our purpose, vision and strategy

Firstly, let me turn to our vision and strategy.

Almost three years ago we announced our vision to become a world class technology company that empowers people to connect.

This is not about moving away from being a telco. It is about recognising what a telco of the future needs to be.

What does world class technology that empowers people to connect mean for us?

- It means world class technology in our networks
- It means world class technology to enable brilliant customer experiences, and
- It means world class technology in our service offerings that sit above the network layer, such as our Network, Applications and Services business which we have grown to over \$3 billion per annum.

Telstra has always been at the forefront of technology innovation in our industry and we are committed to continue to be there.

That is why we are investing for the future now and that is why we are committed to providing the best connectivity to Australia.

Our strategy to achieve our vision is to:

- deliver brilliant customer experiences;
- drive value and growth from the core; and
- build new growth businesses close to the core.

Slide - We are making good progress on our strategy

Delivering a brilliant customer experience is our number one strategic priority and we have made significant progress, although we acknowledge there is more to do.

We are providing more value to our fixed portfolio customers through unlimited plans and enhanced media offerings, including Telstra TV2 and Foxtel Now.

We have reshaped our customer's nbn connection experience. For example, we have now upgraded almost a million nbn customers to the Standard Plus NBN50 speed tier at no additional cost.

We now offer our smart modem to all new customers, customers moving home and many customers migrating to the nbn. Our smart modem backs up the fixed network with our mobile network. Our customers tell us that having a "walk out working" modem is one of the features they most like.

And, we now have dedicated teams to support nbn connection and assurance events for customers over the age of 70 and those with medical priority requirements.

These customer service improvements, among many others, have led to the recent launch of our nbn Satisfaction Guarantee. This gives nbn customers the freedom to leave Telstra at no cost if they're not happy with their nbn service in the first 30 days of connection.

Similarly in mobiles, we have enhanced all of our plans with more data, more media and more services.

Yesterday for example, we announced our first smartphone plan with unlimited data. We also refreshed our existing mobile plans with our most generous data allowances yet and 24 months' free Foxtel Now for eligible customers.

Turning to the second element of our strategy – **driving value and growth from the core**.

We have increased our mobile customer base for 20 consecutive halves despite intense competition.

In September 2017, we further invested in our multi-brand strategy with the launch of Belong Mobile.

In the fixed market, we continue to perform well in nbn with new connections in the half year taking our market share to 51% excluding satellite.

We are pushing hard and seeing strong momentum in our productivity program where we delivered a \$249 million decline in underlying core fixed costs in the first half.

We continue to expand and deepen our network leadership in conjunction with the long-term strategic investments that we are making. More than 92% of the Australian population have access to double the mobile speed of our original 4G through 4GX. Our 4G technologies cover 99% of the population.

Against the third element of our strategy **building new growth businesses close to the core**.

NAS continues to grow strongly, with revenue up 14.1% to almost \$1.7 billion in the most recent half. We see continued strong performance in cloud, integrated services and commercial works.

We have seen strong demand for our cyber security offerings, and have opened Security Operations Centres in Sydney and Melbourne.

We are investing in two new subsea cables with connections from Hong Kong to the west coast of the US, as well as the Indigo consortium connecting Perth, Singapore and Jakarta. This investment will support growth in our global connectivity business.

Our Australian leading Internet of Things business continues to be a source of new growth as it is nearing \$200 million in annual revenue.

Last year we launched our Cat M1 IoT network extending to around 3 million square kilometres – the largest in Australia and one of the largest in the world. We followed this launch with the release of our Narrowband IoT network.

The Cat M1 IoT network supports medium bit rate devices – for example consumer and healthcare wearables.

The Narrowband IoT network is complementary and supports applications with a long battery life, and infrequent and small amounts of data. For example, outdoor applications in agriculture such as monitoring livestock, water levels and soil statistics.

Slide - in a challenging market

Our business is operating in a period of significant change and we are today in one of the most dynamic periods the company has faced.

The telecommunications industry is going through a challenging period. Here in Australia, retail service providers in the fixed market are dealing with the migration of customers to the nbn - which I'm sure you can appreciate is additionally complex for Telstra.

The nbn rollout is changing the economics of our industry and having an impact on Telstra's EBITDA. We are shifting from being a wholesale provider of fixed services to being a reseller.

Wholesale broadband prices through nbn have more than doubled from those on the copper network and are set to increase even further. That increase has so far been absorbed by the retail service providers, in some cases to the point where providing an nbn service is uneconomic.

This is unsustainable and ultimately will need to change if we are to avoid higher long-term prices for customers.

We initially estimated in May 2016 the expected negative nbn impact on Telstra's recurring EBITDA after the end of the rollout would be in the range of \$2 to 3 billion.

We updated this likely impact in August 2017 to be at the top end of the range - or around \$3 billion – due to rising wholesale broadband prices and industry conduct.

Of this \$3 billion recurring nbn impact, we have cumulatively absorbed \$870 million to the end of the last half. This ongoing economic impact will ramp up in the short term given the accelerated profile of the nbn rollout.

Against this nbn background, mobile is the single biggest influence on value for the company today – for both upside potential and downside risk.

As you know one of our critical objectives is to achieve growth in mobile services revenue and EBITDA.

Despite strong customer performance, overall mobile services revenue declined 1.2% in the first half this year principally due to post-paid handheld ARPUs which were down 2.9%. This ARPU decline was due to competitive dynamics and some one-off impacts.

In the short term, not only are we expecting the entrance of a fourth operator into the mobile sector, we are seeing rising customer expectations with continued pressure on mobile pricing and increasing data allowances.

At this challenging time, we have the right strategy and it's critical that we continue to execute against this strategy.

We are stepping up how we compete in the mobile market, particularly implementing our multi-brand strategy including Telstra, Belong, Boost and Wholesale.

We are absolutely increasing our focus on reducing costs. While we announced increased net cost out targets in August 2017, we will look to do even more.

Our strategic program of additional investments of up to \$3 billion is also a critical part of our response, empowering us to simplify our business, increase our differentiation and lay the foundation for the future.

At the same time we are scrutinising every aspect of our capital spend to maximise shareholder value.

We are also targeting future growth with new opportunities emerging from the core of the business, such as 5G.

While there's no hiding the fact we face challenges, we are seeing increasing demand for our services and growth in data volumes as connectivity becomes increasingly more important.

We therefore remain optimistic about the long-term future of the industry and for Telstra.

Slide - We are making progress on our strategic investment program

Let me turn to the progress we are making on our strategic investment program.

We announced in August 2016 that we would invest up to an additional \$3 billion to achieve a material step change in our strategic position, recognising the significant growth and demand in network capacity and innovation.

We are now over half way into the program from an investment perspective, and have invested more than \$1.5 billion of capex across two major streams, Digitisation and Networks for the Future.

Some significant new capabilities have been implemented through our **Digitisation program**.

Digitisation will improve the customer experience, improve productivity for our employees and enable new revenue streams.

We have seen customer experience improvements through our *digital self-service channels*.

For example, our call centre solution Get Help! has reduced call times for nbn complaints by more than six minutes and we are escalating 60% fewer issues to Telstra field technicians.

For our Consumer & Small Business customers, we completed our first live end-to-end unassisted customer order for a nbn data service on a new platform. We are currently looking to scale this new digital provisioning capability.

In our Enterprise business, we launched the Telstra Connect app to enable self-service capabilities for our customers as well as Expert Finder, a new online capability that connects our customers with our experts to solve customers' "pain points" and generate revenue.

Again, in our Enterprise business, *we are shifting to a new IP-enabled digital product set*. So far we have launched Liberate and the Telstra Programmable Network.

With Liberate, customers can experience the best features of desk and mobile phones combined, meaning their employees can get work done from most places, using their fixed number on their mobile.

With the Telstra Programmable Network, customers can quickly and flexibly scale up and down their IP connectivity and network services through self-serve tools.

As our digitisation program gains momentum, we have a number of important platform and cloud-based changes to be implemented that will deliver significant benefits. These include:

- transferring our Customer Relationship Management systems to a single cloud enabled Salesforce platform, delivering better outcomes for customers and enabling us to shut down five legacy systems;
- revamping our customers' ecommerce experience, significantly improving the online shopping experience; and

- the delivery of a new unified identity platform that will replace nine legacy platforms and allow customers to seamlessly switch between Telstra Apps.

Within our **Network for the Future Program**, we continue to invest in *mobile differentiation, coverage, speed and resilience*.

We have achieved a number of firsts and milestones ahead of 5G:

- We have enabled the foundations for 5G by completing the installation of our first virtualised mobile core infrastructure at the Southport site on the Gold Coast and opened the 5G innovation centre.
- We have achieved world firsts with a data call on 26Ghz 'mmWave' spectrum and 5G-enabled WiFi hotspots on the Gold Coast.
- In another first, working with Ericsson and Intel we used prototype 5G infrastructure and mobile connectivity over mmWave to put Australia's first 5G Connected Car on the road.
- We have delivered a Gigabit speed footprint across selected high-traffic areas, including CBDs in Sydney, Melbourne, Adelaide, Brisbane and Perth.
- We now have more than 9,200 mobile sites across Australia, including more than 450 small cells with more to follow, and
- We continue to lead on coverage and have expanded our mobile network to more than 2.5 million square kilometres of the Australian landmass.

Our investment in 4G is critical as it is what customers use today. On top of that, when 5G does launch it will not operate as a standalone technology for most early use cases.

The quality of the underlying 4G service and how this integrates with 5G will therefore be critical in determining the overall mobile experience.

We are also building the *platforms that we will need for the future, including networks to support the Internet of Things, Software Defined Networks and Network Function Virtualisation*.

Recently, we completed the first successful Voice over LTE call into the live mobile network using a new virtual IMS platform, this platform optimises media to deliver better quality video streaming and a more consistent voice calling experience.

We continue to *extend our core backbone infrastructure* to support improved resilience and five times 2016 capacity by 2020.

In addition to the 5 cities we delivered earlier this year, last quarter we continued to add new routes connecting key regional locations in Far North Coast in NSW, and Wellington to Katanning in WA.

Slide - Our financial strategy supports our corporate strategy

Let me comment more on what will create value for the company in the short term and in the long term.

The short term market outlook is challenging. We need to continue to respond to the competitive dynamics and mitigate the recurring impact on margins of the nbn.

To grow our underlying businesses, we are targeting growth in mobile EBITDA. This is the single biggest driver of value for the company today. Clearly we need to turnaround the current trends in mobile revenue and ARPU.

Improvements in nbn reseller margins are also key to the long term. nbn margins are challenged today but ultimately we believe the nbn market dynamics have to improve. In the meantime, it is critical we achieve our targeted improvements in the costs to connect and costs to serve customers on the nbn.

We are targeting continued growth in our NAS business and IP products to offset the impact of pricing pressure and the decline in legacy data revenue.

Delivering on the benefits from our strategic investment will also be critical. That includes \$500 million in expected EBITDA benefits by FY21 with \$100 million being delivered this financial year.

We also firmly believe there are new sources of value emerging for the future, revenue opportunities in areas such as the Internet of Things and 5G.

We need to manage timing and conversion of cash. On this point, it's important to look at us on a cash and earnings basis given the timing of capex, spectrum auctions and nbn DA receipts over the next couple of years.

Finally and significantly to create value for Telstra, we are resetting our cost base.

In November 2016, we announced a \$1 billion net cost out target by FY21.

Given our strong productivity performance in FY17, we subsequently committed to doing more on cost out and doing it faster. We brought forward our \$1 billion net productivity target by 1 year to FY20. We also increased our target by a further \$500 million and we currently intend to deliver more than \$1.5 billion in net cost productivity by FY22.

This \$1.5 billion net cost out target from our productivity program is significant on underlying core fixed costs of \$7 billion.

In order to achieve this \$1.5 billion net cost out target and offset inflation, re-investment and other underlying core cost growth such as increased power costs, we estimate that we need more than \$3 billion in gross cost out.

Slide – We are making progress on our productivity program

Our company-wide productivity program has four elements:

- Firstly, improving the end-to-end customer experience. We are focused on reducing our customers' effort by getting it right first time, on time.
- Secondly, product and process simplification. We are providing more intuitive products; reducing the number of products and platforms we operate; and improving our processes by automating, digitising and removing manual effort, complexity and waste.
- Thirdly, reducing complexity in our organisation structure, and
- Finally, using supplier partnerships to reduce complexity and costs.

For example, on customer experience we have improved the **end to end processes for ADSL and home phone services**. Our call centre staff are now able to run diagnostic tests remotely such as a modem reboot and reset, and speed and ping test from the modem.

With improved visibility, we are able to inform customers on the current status of their services accurately and in a timely manner. This initiative is on track to reduce call times by over four minutes, half call transfers on congested services and reduce field technician transfers by 15%.

As another example, in Small Business we have recently launched **CAT – our Customer Advisor Tool**. This is an integrated digital platform that allows our frontline agents to view all accounts and services across multiple systems, check service details, view billing details, PDF bills and submit sales leads.

When fully rolled out, this initiative is expected to improve the customer experience, reduce costs, as well as potentially increase revenue generated from new sales opportunities.

Our productivity program is delivering great outcomes across our business and for customers. And at the same time, it has delivered almost \$500 million in net cost out benefits to the end of the last half.

Slide - Capital Management Framework

Capital, cash and fiscal discipline is critical. We updated our Capital Management Framework at the full year results in August 2017.

Our objectives remain:

- Maximising returns for shareholders;
- Maintaining financial strength; and to
- Retain financial flexibility.

We remain committed to all principles including retaining balance sheet settings consistent with an A band credit rating.

Our dividend policy is to pay ordinary dividends of 70-90% of underlying earnings, fully-franked.

In addition, it is our intention to return in the order of 75% of net one-off nbn receipts to shareholders over time via fully-franked special dividends.

The accompanying slide provides further detail regarding our capital management framework, including key terms relating to our dividend policy.

Slide - Summary

In summary, we are operating in one of the most challenging periods the company has faced. Against this background, we are committed to our strategy.

We have the right strategy and are well positioned for the long term. We believe in the long-term value in the industry, but the short to medium term is likely to be more challenging.

Mobile is clearly our largest product. Achieving growth in mobile EBITDA is critical to our financial strategy. In mobile, we will leverage our multi-brand strategy and we are investing in our network ahead of 5G. We expect to lead on 5G as we have with previous Gs.

For nbn, we believe that reseller economics have to improve. In the meantime, we are focussed on improving the customer experience, while reducing our costs to connect and to serve.

Productivity is critical to our overall business. We have achieved almost \$500 million in cost-out to the end of the last half, with a focus on improving the customer experience and improving internal processes. We have increased our cost out target to \$1.5 billion by FY22 and we will look to do more.

And finally, we are on track to deliver economic benefits from our up to \$3 billion strategic investment program, including from Digitisation and our Networks for the Future program.

We have always been a leading telecommunications company, and a leader in innovation at the forefront of investment. Our vision and strategy will ensure we remain a leader.

Thank you. I will hand to Andrew to moderate Q&A.