28 November 2019

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 03 8647 4838
Facsimile 03 03 9650 0989
companysecretary@team.telstra.com

The Manager

Market Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript - Telstra Investor Day 2019

In accordance with the listing rules I attach a copy of the transcript from Telstra's Investor Day on Wednesday 27 November, for release to the market.

Yours faithfully

Sue Laver
Company Secretary

Introduction

Ross Moffat: Welcome to Telstra's 2019 Investor Day. It's good to see a good turnout in the room, and I'm sorry we started a little bit late, we just had to get all the people into the auditorium.

Before we commence today's session, on behalf of Telstra I would like to acknowledge that we are here on the land of the Gadigal people. The Gadigal people are the traditional custodians of this land, and form part of the wider Eora Nation. Telstra acknowledges the past and the present Aboriginal and Torres Strait Islander people who reside in this area.

It is now my privilege to introduce Andy Penn, Telstra's CEO, who will kick off today's presentations. Thanks Andy.

Presentation from Andrew Penn

Andrew Penn: Well thanks very much Ross. Good morning everyone and welcome. Thank you for investing the time to be with us today. As usual, today's event is also being livestreamed, and I know many other people are therefore tuning in online, so can I also add my very warm welcome to all of you.

Let me start by setting the scene for today's discussion. There are really four things that we wanted to achieve today. Firstly, to give you an opportunity to hear directly from the broader management team at Telstra. Secondly, we want to provide an update on some of the key dynamics that we are seeing in the market segments. Thirdly, we will update you on progress with our T22 strategy. And finally, we will take the opportunity to provide a deep dive on a couple of important aspects of our T22 strategy, in particular, including 5G and the establishment of Telstra InfraCo.

Against this therefore we have split the agenda essentially into two sessions. Firstly, you will hear from Mike Ebeid, our Group Executive for Enterprise, and also Michael Ackland, the Group Executive, Consumer and Small Business. They will take you through the key market dynamics that they are seeing in each of the market segments for which they are responsible. They will also address how the changes that we are making under T22 are transforming the business for their customers.

Then Channa, who is responsible for Network Engineering, and therefore the rollout of 5G, will lead a deep dive into 5G. In particular Channa will look at the technology that is powering 5G, the benefits it will bring, where we are at with spectrum, as well as developments in the broader ecosystem. Channa is working closely with our Head of Networks and IT, Nikos Katinakis, who as you know was responsible for the development of the Reliance Jio network in India. Nikos is actually on leave this week, so he is unavailable to be with us.

But this is such an important technology, and there is a lot of misunderstandings on exactly what 5G is, and what it can and cannot do, as well as the roadmap for its evolution. And it is for this reason that we thought that it would be a good idea to spend a bit of time to give you a good understanding of the core technology that is supporting the significant opportunity that 5G presents.

We will then pause for a Q&A session on the first three presentations, followed by a short break. After the break, you'll hear from Brendon Riley, the CEO of [Telstra] InfraCo. Brendon will take you through the progress that we're making in setting up Telstra InfraCo, including fine tuning the scope of the assets and the internal arrangements between Telstra InfraCo and the rest of Telstra. This is a very important part of our T22 program, maximising the value of our infrastructure assets, increasing optionality, particularly in a post-NBN world, whilst ensuring that we maximise and maintain our network differentiation.

Finally, Vicki Brady will close with a CFO update, followed by a final Q&A session, and we will aim to have the whole session this morning concluded by midday.

Now, as you would appreciate, through being on the Board of the GSMA, which is the global industry representative body for telecommunications, and through our relationships with key telcos around the world, such as Verizon, BT, Deutsche Telekom, Telefonica, and of course many others, and meeting international investors and stakeholders more broadly, we obviously have the benefit of seeing Telstra in the context of what is happening globally in our industry. So, before handing over to Mike Ebeid for the first session, I wanted to make some observations in that regard, because whilst of course, there are many different market differences across the markets in the world, there are also many aspects of the industry that follow similar global patterns which I think are informative for how we lead our strategy.

Firstly, I'm pleased to confirm that Telstra is recognised absolutely as a leader in telecommunications technology. This has been reflected most recently by our clear leadership in 5G, and mobile more generally. We were one of the first companies in the world to launch 5G. We already have tens of thousands of customers using it today, and we will be announcing today how we have further extended our network. 5G is going to be very important for our collective future prosperity, not just for Telstra, but for the whole of the country. And therefore we will continue to lead it as we have previous generations of telecommunications technology.

Secondly, our T22 strategy is being closely followed by many of our peers internationally, who can relate to the challenges that we face as a telecommunications company, and are therefore extremely keen to learn from our experience, given the scale and ambition with which we are facing those challenges.

The third point to make globally is that the telco sector has struggled to deliver attractive returns on invested capital over the last decade or so. A combination of increasing capex driven by demand for more coverage, speed, capacity and resilience, has driven up capex as a percentage of sales across the industry by a couple of percentage points. At the same time, industry revenues and ARPUs, which if you look at across the cycle had been broadly flat, and overall therefore, in the industry ROICs have been falling.

Notwithstanding this telcos have also followed a cyclical pattern through the generations of mobile telecommunications. Through the cycles of Gs, industry handheld ARPU and revenues have generally grown through the first half of the rollout, such as they did in Australia, between 2011 and 2015 for 4G. However, they have also tended to decline thereafter, as we have seen in the last three years, with industry handheld ARPUs down around three to four percentage points per annum. The good news from this though is that we are about to move into the first part of the cycle again with the rollout of 5G. And whilst we will continue to see industry ARPUs decline for the next 12 months or so, transacting MMC is increasing for Telstra, indicating a return to ARPU growth ahead.

The crucial question though for telcos generally and for Telstra in particular, is how do we make sure that we capitalise on the opportunity of the current inflection between 4G and 5G, and more importantly, convert it into sustainable growth over the longer term? And that is exactly what our T22 strategy is aimed at doing.

I'm not going to comment personally on the further detail progress on T22 because the team will do that through their respective presentations. However, I do want to take a moment to remind us philosophically what's behind it. When we launched T22 in June of last year, it was less of a change of perspective of where the industry is going, but more a recognition of the scale and urgency of the changes that we needed to make at Telstra to meet it. A combination of being at the back end of the 4G cycle of the industry competitive dynamics that I've spoken about, the growing negative impact of the NBN, balanced with the significant opportunities ahead as we lead the next generation of technology innovation with 5G, meant that we had an opportunity to radically lift the scale of our ambition. And this is what T22 has been designed to do.

T22 is essentially about four things which are reflected in the pillars of our strategy. Firstly, it's about radical simplification. Telstra, like many incumbent businesses with years of history had built up multiples of complex legacy products, legacy systems, legacy processes and legacy thinking. Ultimately though, we realised that we were not going to achieve the level of improvement in customer experience, reduction in activity in the business and therefore productivity, if we did not completely re-engineer our product architecture and related processes.

Moreover, trying to digitise a business that is complex is virtually an impossible task. And it is why most IT transformations fail. And this is the second theme of T22. It's about investing in the technology platforms of the future, a journey which we started in 2016, and why we are so well progressed with 5G and the evolution of our network to the world of software defined.

We were well progress with building the new underlying platforms for a new digital IT stack when we launched T22 last year. However, as I pointed out, if we had tried to migrate our old world onto it, it would simply have failed for the reasons I have mentioned, regarding trying to build IT systems for complex legacy environment. And that is why we have pursued this relentless focus on simplification.

The good news is we have now built the CRM provisioning, billing and e-commerce systems, and are beginning the journey of migrating our customers not only to the new product architecture, which Michael Ackland will talk about, but also on to the new technology from which we will leverage significant benefits.

The third dimension of T22 is building the skills and capabilities that we need to have to be successful in the future. Now in the past, I've talked about Telstra needing to become more of a technology company that empowers people to connect. And I think my comments have been misunderstood. This has never been about Telstra losing sight of what is core to our business. It is always about being understanding about what a telco of the future needs to be.

We have a deep history, as do many other telcos, and capabilities in electrical and network engineering, in radio, and in building telecommunications networks. However, in the world of 5G, software defined networks and network function virtualisation, we need new skills in new areas. We need more skills in software engineering, in data analytics, in artificial intelligence, in cyber, and more importantly, we need them at scale. And this is why we are recruiting an additional 1,500 people in these areas.

These skills are also critical for the development of the applications and services that our customers are increasingly leveraging from our network. If we are to take advantage of the potential benefits that 5G will bring, we have not only to build these new skills, but also to create the working environment that is not going to reject them, which a Telstra of the past would have done. And that is also why we are changing the way in which we are working and adopting agile at scale.

The final dimension to T22 is the creation of Telstra InfraCo. Now, there has been much written about Telstra InfraCo, so I want to take us back and remind us of the very three clear reasons behind this initiative which have not changed.

Firstly, it is clear that infrastructure assets have become a very important asset class for investment, and tend to be viewed differently from the investment community from a valuation perspective, from a traditional retail business. Given this, the creation of [Telstra] InfraCo provides us a very transparent picture of our extensive infrastructure assets, which we can provide to you.

The second reason that we're establishing Telstra InfraCo is to enable us to commercialise these assets more effectively to drive more value. Previously, they were incorporated as part of the day-to-day operations of the delivery of our network experience in our core products and services. However, we now have in Brendon Riley a CEO and a management team whose sole responsibility is to maximise the value of these assets and to be accountable for the standalone P&L account in relation to each asset class, whilst maintaining Telstra's network differentiation.

The final reason that we created Telstra InfraCo is to create optionality, particularly for a world where the NBN has been fully rolled out. It's impossible to predict what the telco world will look like at that point, and when the government may or may not decide to privatise the NBN. It's also unclear whether Telstra would have any interest in being part of the structure involving NBN in the future. It will clearly depend on the circumstances at the time.

However, it does make sense for us to be in a position to have a seat at that table, and that would not be possible if we were still structurally integrated. It would also be critically important in any arrangement to make absolutely sure that our strategic differentiation, particularly in relation to network, is maintained. And that is why it makes sense to set up Telstra InfraCo now, including the detailed arrangements between Telstra InfraCo and the rest of Telstra. Because of course it takes a long time, and there is much we are learning through the process.

So I hope this review of some of the industry dynamics we are seeing, and the reminder of the rationale for our T22 strategy, and the establishment of Telstra InfraCo are helpful context for today's presentations. As I said earlier, a look at the sector through a global lens tells us we're absolutely on the right path. And I am encouraged by the progress that we're making on the execution of our T22 strategy over this first almost 18 months.

Furthermore, as we sit here today, very close to the dawn of the 2020s, and at the beginning of 5G, I think that there is much to be excited about for the opportunities that this technology will bring. And T22 is about placing us in the best possible position to take advantage of those opportunities.

Let me now hand over to Mike Ebeid to take you through in more detail what we're achieving in our Enterprise business. Thank you.

[Video playing]

Voiceover: At Telstra, we deal with technology every day. So it might surprise some to hear that technology isn't our main focus. It's people. We've been connecting them for over 160 years, bringing them together through the power of our network and our expertise in technology. It's these connections that have helped Telstra and all Australians grow throughout our history.

Today, we're connecting more businesses and governments in Australia and around the world faster than ever before. We're opening up Asia to the world, and opening up possibilities for all. The connections we provide enable commerce and markets to thrive and people to prosper.

Sure, a lot has changed over the years, and we've had to change too, adapting the way we do things and evolving as a company. But one thing hasn't changed. Connecting people is still at the core of everything we do, like our exciting global partnerships, which connect and improve the lives of millions around the world and a services business which gives us the flexibility and capability to shape and humanise emerging technology around our customers' needs.

At Telstra Enterprise, we're creating an environment that encourages collaboration, an environment that's dynamic and innovative, to keep pace with the smart and driven employees we attract. Where world class connectivity goes hand in hand with world class customer service. The breadth and depth of our capability has the power to transform business and government and change the world. Together, we're building a connected future so everyone can thrive.

[Video ends]

Presentation from Michael Ebeid

Michael Ebeid: Well, good morning. I love showing that video because it really reinforces some of the incredible capabilities that we have where we're really working with so many of our corporate customers in just about every part of our economy, every sector, government, small business, education, et cetera, and really doing some really great things.

Since I last spoke to you a year ago, I had just joined Telstra. And I've got to see some of those remarkable capabilities myself. But also over the last year, I've got to see the incredible increase in reliance that a lot of these organisations have on Telstra, increasingly asking us to help them make sense of these changes in technology that we're seeing right across the world, and of course, here in Australia that Telstra is bringing.

Enterprise is an $8.2 billion business, it's about 30% of Telstra's overall revenues. And one of the things that I've been really focusing on over the last year or so, is creating and re-energising our business to be a lot simpler, to be easier to do business with, because we know that this is a very complex part of our business. But being able to work with our customers to add a lot more value beyond our core connectivity in our platforms and applications and our services business, is where we're making a big difference to our customers, and creating a really healthy culture where we get to focus on profitable growth going forward, and setting our business up to be able to take advantage of the opportunities and growth that we've got in our business.

Let me just start by sharing with you a little bit about what makes up Telstra Enterprise. Of course, at the connectivity layer, as Andy said, the core of our business, we do have the biggest and best fibre network in the country, where we're connecting so many of our corporate customers on premium grade enterprise fibre products. Our subsea cable network, again, a significant player in the Asian market, carrying about 35% of Asia Pacific's total traffic, and we've made some significant investments in that that I'll talk about later. Of course in mobility, and we're just on the dawn of 5G, working with a lot of our customers looking at a lot of 5G use cases which I think will transform so many industries and add enormous productivity to many industry sectors in the economy. And with that, of course, the explosion of IoT, transforming how so many companies do business and increasing their ability to change and improve their productivity levels.

But above the connectivity layer, what we're really focusing on in terms of differentiating ourselves is the platform and application layer, what we're doing with our software defined networks, cloud computing, unified communications, there's a lot of products in that. And of course security, which is the one thing that most of our corporate customers are talking to us about, and there's a growing increase in demand in security products, and of course, connecting all that with IoT platforms.

More recently, we launched Telstra Purple at Vantage just in September this year, bringing together all our professional services and managed services business to help our customers bring together all those technology changes and what it means to help transform their businesses, as our corporate customers go through digital transformations of their own. Being with them step by step, helping them design, set up their strategies, implement those strategies, and if they want us to continue to manage those networks for them, is going to be increasingly important. And we're seeing more demand in our managed services, as more companies need those services in cloud and security, particularly in the mid-market sector, where traditionally we have focused on managed services at the top end of town. And that demand is growing in the mid-market.

So that's kind of the overview of what Telstra Enterprise looks like and does in the market today. Let me give you a quick update on how we're tracking on our T22 commitments. Our commitments in T22 and Enterprise were similar to what Andy talked about in terms of simplifying Enterprise, and we'll go through them. We've been doing a lot in Enterprise in completely transforming the way we go to market. We've transformed our operating model. We've stood up our segments in how we approach customers, in terms of our large enterprise government customers and our mid-market. It's enabled us to really focus on those different parts of the market to have tailored solutions for each of the industry segments in those different market segments.

We've done a great job in rationalising our product set. To June this year, we reduced our products by about 20%, from 650 down to about 517 on the June end results. And we've continued that momentum of reducing and simplifying our products by about another 30 odd product reduction to September end to about 488 now, which is terrific. And of course we've also transformed the way we work, bringing agile methodologies into the organisation. And we've reduced our workforce by just over 1,000 people in Enterprise which, of course, will contribute to our cost productivity targets.

We've also been leveraging our networks, our fibre networks, our mobility, and of course, the IoT networks that I talked about earlier. And we've launched as I said, Telstra Purple which I'll talk about in a bit more detail in just a little bit, that has really helped us in the market connect with customers and deliver a service that they desperately need to bring all this together.

And we're continuing to execute on our international strategy, which has enormous potential for us in the years to come over the next couple of years, as investments that the organisation has made and already announced in some new cable infrastructure will give us more capacity to keep growing that business.

And finally, again, as Andy said earlier, digitisation is a key part of what we've got to do to transform in our Enterprise space, looking at our own tools, but also tools for our customers. So we've introduced Salesforce which has added enormous productivity to our sales forces and understanding our customers and being better connected with them. But also we've launched Telstra Connect, which is an application that gives our corporate customers for the first time full visibility of all their services where they can use Telstra Connect either in the palm of their hand on a mobile phone or on a website, to do add, moves, changes, see where their orders are, log faults with us, without needing to send emails or get on the phone, etc. So it's a powerful tool that is empowering our customers.

From a product stack perspective, our digital stack, we are continuing to make great progress. We have built minimal viable products across mobile, Next Gen UC, which will be going live in the next quarter, which we're really excited about. And of course, we've introduced robotics and AI across our processes, about 170 different processes have been automated within our business, which is clearly adding to our productivity levels, which is terrific.

I wanted now to spend a minute talking about some dynamics that are happening in the Data and IP in our connectivity in Enterprise. We know that technology and market dynamics are absolutely impacting the overall economics of this part of our business. Globally, we're seeing a shift in a lot of companies where they're moving some of their non-critical applications into the cloud. And what this means is a shift going from premium full IPVPN or MPLS type services to lower grade, business grade or consumer grade services and putting applications either in the cloud or just putting them over the top on the internet.

And that means there's been a shift in the higher ARPU MPLS products to lower grade internet services. We're seeing that right around the world. We've also seen the introduction of SDWAN, software defined WAN networks. That's giving our corporate customers more optionality in how they build their networks, being able to create hybrid networks of full grade MPLS networks and lower grade services as well, and being able to manage their traffic. Significant cost savings for our customers, which of course means for us a degradation or an acceleration in our ARPU declines. Locally we're also seeing, of course, the impacts of the copper migration where we're seeing our legacy ISDN products which traditionally have high margins, moving to fibre.

And of course, we've all seen the NBN moving into the Enterprise space, which we absolutely knew they were doing, and we predicted some of that in our numbers, and we've been working with NBN, because NBN going into the Enterprise space is absolutely increasing the overall number of SIOs in the market over the next few years. We predict that will be doubling the number of SIOs in the fibre market over the next couple of years. And we'll be able to take advantage of that. And I'll talk a little bit more about how we're responding to that in a moment.

In the middle there I've shared with you some Gartner forecasts about what's happening in the IPVN market. About a 5% annual decline in ARPUs. So over the next couple of years we're also forecasting about a 10-11% decline in IPVN pricing. But you can also see there as customers move from that to internet products, that is also seeing about a 9% annual increase in those services.

Overall, as I say, we're seeing the market increase for fibre at a lower mix rate, which is seeing lower margins. And particularly as ISDN goes completely out over the next couple of years, that is obviously impacting our business as well.

NBN going into the Enterprise market is also accelerating some of our customer recontracting that we're seeing in the market as well. So we need to be and are being on the front foot, working with our customers to be able to ensure we're doing everything we can to retain them on our fibre network. So we're doing a few things that I want to talk about.

Firstly, we absolutely know that our fibre network is differentiated in the market. We know that we've got over 250,000 kilometres of fibre connecting our corporate customers. Let me just put that into context to that, that 250. Optus has about 48,000 kilometres, TPG has about 27,000 kilometres, and Vocus has about 21,000. The number of buildings that we have in Enterprise, just over 60,000 buildings, corporate buildings are connected. Again, as a point of comparison to that 60,000, Optus has 18,000, Vocus at 6,000 and TPG at 1,500 buildings connected.

Our footprint is absolutely unmatched in the market for the Enterprise market. We know that our network has great resiliency, in that we have tri-path resiliency around our major cities around the country, adding significant benefit when we go to our corporate customers. We're continuing to invest in our products, making sure that we've got great state of the art SDWAN products as we know our corporate customers want that flexibility and optionality in how they build their hybrid networks, and we're helping them do that. So we're investing more in our SDWAN products.

We are making sure that we are NBN ready. What I mean by that is making sure that we've got more of the NBN products, the lower grade products, what NBN is calling TC2 and TC4 products in the market and we will be launching some new products over the next quarter or two as well to make sure that we can meet our customers' needs going forward, as those needs are shifting from high end products to lower grade products.

We're looking at how we can improve our digital managed service as well, given the demand for that is increasing. And of course, we're investing a lot more in edge computing, particularly as we look at 5G as well. We know that we have over 500 points of edge compute locations around the country. That is going to be absolutely important as customers move a lot of their compute processing closer to the end user from having to transport a lot of that data across premium networks, as they do today, back to a central hub. And I think edge computing is going to be really important to differentiate us in the market going forward.

And then finally, the third part that absolutely differentiates us is our services business. We know that 77% of our connectivity customers today are taking NAS products with us as well. And so we're continuing to do some great work in the NAS space. We've seen the margins of that business increase half on half on half, and that will continue to do that as well. And importantly as well, our connectivity customers, almost about 40% of them are also asking us to manage their networks. And again, that is increasingly the case in mid-market as well.

So I think we're really well positioned when we go to market. More than anyone, we have our premium Telstra fibre, where we can lead with that, for the customers that need high end connectivity, high bandwidth for their services.

We're going to have really good, we do have SDWAN products already in the market that we can differentiate with to be able to scale our network. But at the same time, we are going to leverage the NBN network, which obviously changes our capital requirements going forward, where we know that if customers want a business or consumer grade service, we can deliver that for them as well, giving us a much better return on our capital. And so we are in market today being able to offer both to our customers. And as I say we're enhancing our product range on the NBN as well.

The third part of course for our differentiation is our services business, Telstra Purple. And we put Telstra Purple out in the market in September, because we knew that it was really our people who are able to deliver on that purpose of making technology come to life. Without our people, that purpose can't be realised. And we combined people and purpose together to get 'Purple'. And we launched that, and since we launched it, we've had a terrific response in the market. With something like 70% of our customers that came to Vantage, who saw our launch, said that they will speak to us within the next 12 months about the services that we can provide them.

We brought together many of the acquisitions that Telstra has made over the last few years from O2, Bridge Point, Company85, Readify, Kloud to bring together about 1,500 people across our organisation under Telstra Purple. We're currently working with about 1,600 clients and working on about 800 different projects for our corporate customers. Some of them are really exciting, and as I say, we're working through design, data analytics, software and AI, mobility, collaboration, cloud, and importantly, how we tie that in with security services as well. Bringing all those together, right through to a managed service.

We've been doing some really interesting projects along the right there, working with some universities doing some fantastic things, bringing learning to a whole new level for universities, working with emergency services, police services and ambulance services around the country, enabling them, giving them the power in their hands to be able to do things at the frontline, working with those forces to be able to develop new applications and products on handheld devices that are really transforming how they go to market. And we're doing a lot of other things across just about every sector of our economy.

Finally, I just want to talk a little bit about some of the other opportunities that we're pursuing in terms of growth opportunities for Enterprise. Firstly, around the mid-market sector. I mentioned earlier that we've put together our sales team to focus on our mid-market because we believe there's a real growth opportunity there for us. We're putting together tailormade solutions for various industry verticals in that mid-market to be able to go to that mid-market at scale, and be able to put together some real value add solutions in their businesses.

We are working a lot in the mid-market around security and IoT, again, two areas that are huge demand in the mid-market sector. And we're leveraging our indirect channel to really grow and get the reach that we need into that mid-market. And we've had some great success, and our indirect channel now represents about $1 billion of sales for us each and every year.

Security is another big one, where we are leveraging the enormous capabilities that we have internally at Telstra for our own security needs, together with the investments that we've made in our Telstra Security Operations Centre. And we're enhancing the products that we have. This is an area that you need constant evolution in. And as I said earlier, our customers are telling us this is one area that there is an enormous amount of demand in as well.

So we're really beefing up our security operations and products and services, as well as working with a bunch of security partners to really enhance our offering to the market as well. And finally, we're leveraging the Telstra Purple skills that we have in the security space to combine that with our own security resources, the work that we're doing in the Telstra [Security] Operations Centre[1], to really have a full offering of security services in the market.

Finally, in our international space, I mentioned earlier that we have announced obviously some cable investments that we've made. Indigo from Perth to Singapore has already gone live. Faster, the Japan to the US has gone live this year. And the NCP cable has also gone live. In the next financial year we've got our Hong Kong to LA cable, we've got two cables that we've got coming online in the next year, and then in the year after we've got Next, the Southern Cross Next cable in 2021. This will give us a lot more capacity to be able to grow and meet the demands of our international customers over the next two years as well. So we've got a lot of those opportunities.

So just to summarise, we're absolutely delivering on our T22 commitments. We're slightly ahead on some of the things that we want to do, like the product rationalisation that I mentioned. We are absolutely facing into the disruption that we're seeing in our connectivity market. I think we're in a great place at the moment to be able to respond to both the technology changes and the market shift changes, and the NBN changes that we've got to leverage that network.

We've got strong differentiation as I said in our services business. We now have, in Telstra Purple, Australia's largest Australian owned ICT professional managed services business in the country. And that will give us enormous leverage in the market.

So I think we're really well positioned to take advantage of many of these growth opportunities, both internationally and locally off the back of things like 5G and IoT, which Channa will be talking about in a bit more detail. So hopefully that gives you a sense of what we're doing in Telstra Enterprise. I'm now going to hand over to Michael Ackland. You may not recognise him because he's sporting a new fresh beard. We hope this is Movember, but it's only a few more days, we'll get to find out if he's taking it off. Michael Ackland for Consumer. Thank you.

Presentation from Michael Ackland

Michael Ackland: Okay, good morning, everyone. Thank you for the commentary on my facial

[1] Verbatim "Telstra Operations Centre"

hair, Mike, I haven't decided yet. Little bit of Movember, it's always good to talk a little bit about men's health, which I'm not going to do. But we're going to get into talking about Consumer and Small Business.

So I want to cover a couple of things today, and it really is to talk a little bit about how we going on T22, a little bit like Michael did, talk a little bit about the market and around some of the 5G momentum before Channa gets into the real details in around what's coming in FY20.

So if we start with how we've gone so far on T22. I think we've had some really fantastic successes within the Consumer and Small Business space around delivering on that Pillar 1 ambition of setting a benchmark of trust with our customers, radically simplified product propositions, no more complex bills, no excess data, freedom to move between plans, only pay for what you value, having incentives to have more services with customers in an effortless digital experience.

So simplified plans, we've gone from the 1,800 to 20. I'll talk a little bit more about that and the impact that that's having. We've seen our call volumes down by 22%. And in fact, in the first quarter, we're now 500,000 calls below our target for the first quarter, already. Increasing our digital services interactions, we ended the year at 53.5%. We're currently at 56%, and we're on target to hit our Q2 targets as well. We more than doubled our digital sales in FY19, and again we're on track to hit our target for Q2 as well.

We have launched account management for all small businesses, which I am going to talk about in a minute, launched the Telstra Business Technology Centres, and of course launched our Telstra Plus loyalty program, the first of its kind for a telco in Australia, which we launched in April, and is already at 1.1 million members. So a really fantastic set of progress in the consumer space in setting that new benchmark of trust with consumers and small businesses.

So I'm going to talk a little bit about what we did in terms of launching these radically simplified plans and what's happened. So I'll just run through quickly again, in all of our fixed and mobile products, no lock in, no excess data charges, flexible device repayment options, and personalised with extras. We already have 1.8 million services on those new plans, which is ahead of where we have targeted, and is putting us well on track to hit our target for the end of FY20 of having three million customers enjoying all those benefits, no lock in, no excess data, flexible device repayments, and the flexibility to add the extras that you love.

And excitingly, what we're already seeing, if I take our mobile space, strategic NPS for customers on those new plans up by six points already, which is, I think, demonstrating some great momentum and something that we're very excited about.

Small Business is really core to much of our T22 strategy within the Consumer and Small Business space. It is such an important part of our business. It's a place, we are the natural home for small businesses in Australia when they look for their telco and their connectivity needs and their service needs.

And we launched earlier this year, account management for every small business. So what we're saying to small businesses in Australia is it doesn't matter how many services you have with us, how many people you have in your business, we want to do the running around for you so that you don't have to. And we've launched the small business account management team in contact centres. We have already taken over 1.3 million calls in our account management team for small business. And in that we've seen a one third reduction in those really annoying transfers that small businesses often have to bounce around to get things resolved. So very excited. We've trained over 3,000 business experts across our store network, and we've also launched a click-to-call service for our small business customers so that they can get in contact with us without having to wait on the phone.

Since implementing account management, we've seen a three point lift in strategic NPS for a small business customers, and we're actually tracking now both for strategic NPS for small business at the highest levels we've had since we started measuring that.

Telstra Plus. Back in April we launched Telstra Plus, first of its kind for an Australian telco. We now have after just six months after launch, 1.1 million customers, and we've designed it to give customers the opportunity to earn discounts on the latest devices and accessories, as well as access to discount presale movie, sports tickets, movie entertainment, VIP tech support, and a whole range of other benefits that are building over time. We're building scale across our consumer base, we're building deep member engagement.

In terms of redemptions, we launched the redemption store in July. And in fact, from September to October, we've seen a doubling of that redemption rate, as we continue to enhance the breadth of offers that we've got in that redemption store. And we are seeing that engagement lift month on month on month, both as people build up a points balance, but also as we improve the breadth and the quality of our redemption store. So this is all about putting customers first, giving them that reason to have more services with us, and giving them that reason to stay with us because they want to, not because they have to.

So that was a very quick run through of some of the progress on T22. And I now want to talk a little bit around what we're seeing in the market, and I'm going to start with fixed. So clearly the fixed market continues to be dominated by the rollout of the NBN. But before I get into some of the outcomes for Q1 and how the competition and competitive intensity is playing out, I want to talk a little bit around how we're seeing the market evolve.

What we're seeing is that that customer experience in the home is becoming more and more important for customers. When I read customer feedback and listen to what customers are saying about their experience, they don't necessarily talk about NBN speeds. We've tried to train the market to talk about NBN speeds. What they talk about is the quality of the Wi-Fi in the home and the experience that they have in the home, and ultimately that's what makes the difference. And we've made a huge investment in improving the quality of Wi-Fi for all Australians. We're focused on the speed and the coverage of the Wi-Fi in the home, and Telstra smart modem is the best and delivers the best and most consistent Wi-Fi speed and coverage in the home, and for all of our Consumer and Small Business customers on the smart modem they get that 4G backup as well that gives them that continuity of coverage. I'm pleased to say we now have more than 1.7 million smart homes, smart modems in homes around Australia.

We also have our home dashboard, which allows customers to see their Wi-Fi usage, we've taken away the lock in contracts and provided that flexibility. So when we think about the fixed experience for customers, we're increasingly focused on the quality of the modem, optimising those devices and providing that backup, and moving beyond just talking about NBN speeds, because that's what our customers are talking about.

A little bit about the market. So Andy talked about TMMC, and while we've seen a lift in our branded TMMC in fixed across Consumer and Small Business, we have seen a slowing of net adds in the market as we've lifted those prices. And while we are lifting prices, we will see a continual decline, an ongoing decline of ARPU as we move more and more of our customers onto the in-market plans.

But we are continuing to focus on delivering the experience to support the premium that we have in the brand and in our service, and focusing on the quality of the modem and the quality of the Wi-Fi as where we think competition and differentiation within fixed is going to be as we move forward.

A little bit about the mobile market. Net adds in the market are slower in the first quarter. But we are starting to see trading conditions start to stabilise, and we are on track to deliver our ARPU in line with expectations and in line with guidance. As Andy pointed out, since the launch of our new plans in June, we have seen an uplift in value in our branded TMMC of between \$2 and \$3 from Q4 into Q1, and we're holding value in both prepaid as well as lifting our trading value metrics, our TMMC in Belong as well.

In prepaid we have grown our unique user base in Q1 while broadly maintaining price. So overall we continue to execute on our multi-brand strategy with the Belong mix and the prepaid mix going up in our overall net adds.

In terms of 5G, we are really excited about the momentum that's building in 5G, and we think that device availability will be what accelerates 5G take up. So we launched the Samsung S10. We have successfully launched the Oppo Reno 5G, the LG ThinQ 5G, the Samsung Galaxy Note 10+ 5G, and yesterday we launched the A90 5G phone, which is the first 5G phone in that mid-tier price point. So available at all Telstra stores now go out and get one, recommended retail price of \$1,049, available online, on our call centres, at stores. So we're really excited that we are now seeing those mid-range devices into the market. And Channa will talk about this in more detail.

But already even with the devices we've had in market to date we've seen a quarter of our Android sales sold since July being 5G phones. We expect most major brands to launch 5G handsets into 2020, and the A90 in the mid-range is going to be the first of many, as well as seeing second generation chipsets being launched into phones in February and March.

So this is going to really start to accelerate momentum in 5G. Interestingly, from a brand awareness perspective, 94% of people are aware of 5G. 75% of Australians associate 5G with Telstra, 22% with Optus, and 47% of Australians have either heard a little or a lot about 5G. So as these devices come, and as the device range expands out, we feel that we're incredibly well positioned to make the most of this. In fact, according to Telesyte's 2019 Australian mobile services market, the availability of handsets, 5G handsets, and networks is expected to be faster than we've seen with previous generations. And they're expecting consumers to respond as those handsets roll out.

The other thing, and we've talked about this I think before, is that 5G will change the way that people buy mobiles and the way that mobile plans are sold. When we launched 3G, it was about voice, it was about text, and that's how we charged with 4G. It was about the volume of data. We expect, much like the discussion in fixed, that the decision making process for customers is going to move more and more in terms of the network experiences that they want and that they want to buy. And the quality of the network and the differentiation of our network and our technology will be more important than ever as we move into 5G and as handsets become more and more available in the market.

So we're expecting to see more of the discussion around the mobile market to be around differentiated network experiences, whether that's whether you want standard-definition, high-definition or ultra high-definition video, the experience you want in terms of latency, or AR/VR use cases.

Which brings me, as we look forward, to my next point, a fantastic example of where another opportunity for us to demonstrate the quality of our network experience, and this has been our entry into gaming. So I don't think I need to reiterate how important gaming is in the market. The explosive growth of e-sports and of cloud gaming. And we wanted to put our stamp on this market and as another great example of our ability to provide a differentiated network experience.

So on October 29, we launched our gaming offer, an exclusive partnership with Microsoft for the Xbox All Access pass. It is exclusive to Telstra, it is a market-leading gaming offer. And it is putting us in a fantastic position in what is a $7 billion a year market in Australia. And I'm pleased to say since launch momentum has been, really has exceeded all of our expectations. Not only are we very, very happy with the subscriptions and the Xboxes that we're selling, we're also seeing this offer start to bring in a whole new set of customers into the Telstra brand. We're seeing it have a role in helping us support our fixed broadband sales, as more and more people want to come and use this service. Now I have it at home, it is absolutely fantastic. And 100 games, it's great, you should all go out and get one, and get on board with this.

And as we talked about when we launched, this will be the first step in our gaming strategy, and you will expect to see us start to offer differentiated gaming experiences in our fixed network, through the quality of that in-home device, the smart modem we talked about. The ability for us to create differentiated networks and superior network experiences through our network is second to none, as well as we get into more pure cloud gaming and into the 5G world as we go forward. So very, very exciting to be in this space. A new category opened up for us and one that we're very excited about.

So where to next beyond this? We will be continuing to focus on removing customer pain points. We are going to stay disciplined about radically simplified products, disciplined about not reintroducing complex bills or charges for excess data, making sure customers only pay for what they value, the freedom to move between the plans, continuing to provide more incentives to have more with Telstra, and investing in effortless digital service.

So we're expecting further advances in both strategic and episode NPS. We're going to crash through more than three million customers onto in-market plans. And we're excited to do that because we want our customers on these plans where they don't have lock ins, and importantly, they don't have excess data, they don't have the risk of having that bill shock and having that surprise. We know that excess data is a huge pain point for customers, and we're really proud that we're going to be accelerating and pushing the migration to get customers onto those plans. We want to get to over two million customers enrolled on Telstra Plus, 24% of sales interactions in digital, and we will take out another one third of mass market servicing calls this year.

So on track, lots of exciting things happening. The ability for us to leverage our advantage in our network has never been more exciting with 5G and new use cases coming on track. And I'm super excited about how we're positioned to take advantage of everything that's to come.

So just to wrap up, great delivery on the T22 objectives. Standouts include the radically simplified plans including no excess data charges, loyalty, and the small business account management have been a fantastic success. NBN rollout is dominating the dynamic in the fixed market. But I want you to think about the important thing is that in-home experience, and the quality of the device that you put in the home is what makes the difference to how you will experience your fixed service.

The mobile market is stabilising. Volumes are a bit a bit softer, but we expect momentum to build with 5G. And as those 5G devices keep coming in the market at the different price points, the second-generation chipsets as well as all the major brands eventually launching 5G, we expect that to pick up momentum.

We have a huge opportunity to lead with differentiated network experiences. We're loving the new gaming category, and the performance has exceeded our expectations. And we're going to continue to focus on removing those customer pain points as we go forward into 2020. Thank you very much, and I'll introduce Channa. Thank you.

<u>Presentation from Channa Seneviratne</u>

Channa Seneviratne: Okay, good morning. So I'm going to do the 5G update. So I hope you have got your technology propeller caps on. What I'm going to do today is going to give you a progress report on what we've been doing since we launched our 5G network six months ago. But I'm also going to then talk to you about our roadmap on our 5G ecosystem. I'm going to talk about that in terms of our spectrum and how we're using that spectrum. But also some really interesting technology advances which are coming, which are going to improve the performance of our 5G network and improve our assets significantly.

But before we get into that, what I just want to say is that we're building the 5G network on top of our world class mobile network. And it's important to understand that the 4G network is very much our workhorse. We continue to improve that. And in fact Mike Ebeid spoke about the Internet of Things and the importance of that, and the fact that it's a growing market. And for us, we've got two flavours of the IoT network, the Cat M1 network out to three million square kilometres, and the narrowband IoT network out to 3.5 million square kilometres.

And just about three weeks ago, at MWC, Mobile World Congress Americas, we announced another world first, where we've improved the coverage of the narrowband IoT network from a single site from 100 kilometres to now 120 kilometres. So we're going to roll that capability out early in the new year, and that's going to see narrowband IoT network expanding to almost four million square kilometres. So when you think about it, that's a fantastic network that's out there. And we're seeing more and more take up of products on top of that IoT network. So just wanted to land that point.

The second thing is also to understand that we have spent an additional $3 billion on digitising and transforming our core network. And this has been happening over the last two to three years. And 5G is built on top of that transformed network. So it's important to realise that the investment in our 5G network is not just about in the radio access network. There's a significant transformation and uplift of our core network to support the 5G network.

So we've been working through, Mike mentioned the transmission network and the fact that we are increasingly adding programmability on to that. We have been taking our physical network and virtualising the network functions, and we're adding programmability to be able to optimise data flows. And the other thing that we're doing is that we're using artificial intelligence and machine language to help us do better automation and orchestration, and all of this is incorporated, integrated into our 5G network. So that's a foundation piece of work, and that transformation we've been doing over the last two, three years that the 5G network is taking advantage of.

Okay, so we launched our 5G network at the end of May, and we launched it in 10 cities. At the time of launching, we had four handsets and a Smart Hub. And as Michael just said, we've launched an additional handset couple days ago. Excellent. But there are some really important technology advances that are in the pipeline. Michael referred a couple of times to the second-generation chipsets, which will be coming in quarter one of next year. We also, with the announcement of the closure of our 3G network, we are going to be gradually and progressively re-farming that 3G spectrum onto our 5G, and I'll explain a little bit about the benefits of that and why we're doing that.

Then importantly, the 5G core network. So today the 4G core network is what powers our 5G radio network. But there are some significant advances which are ahead of us as we then upgrade that to the new 5G core network. The 5G core network is actually being, the specification is actually being finalised this year. So this is really brand new technology. And I'm going to say a little bit about what we're doing to prepare ourselves for that.

And then there's the next tranche of spectrum with the auction of the high band, which is the millimetre wave, which is going to happen in quarter one of 2021. And then edge computing, which Mike referred to, and I'm going to say a little bit about that, and where we're going to get additional value from that. But that's to come.

So we said that in fiscal year 2020 that we would increase our coverage footprint five fold, and that we would take that footprint and add 5G to 25 additional cities beyond the original 10 cities that we launched with. So today, I'm very pleased to announce that we have already extended our 5G coverage beyond the initial 10 cities to a total of 25 cities in Australia. So since our launch in May, we have turned on the first 5G coverage in 15 regional cities. So that's really good momentum in the last six months.

And we're continuing to build out the coverage in all those 25 cities, and in due course, we will announce 10 additional cities. So for example, the first sites in a couple of regional cities in South Australia and WA are in the pipeline and coming in December. So there's great momentum, and we will get to those 35 cities by June 30.

Okay, so what's the experience that our existing 5G customers are enjoying today? We said at the time of the launch of the network that we expect the 5G speeds to be twice that of 4G, and what we're seeing today is exactly that. The chart on the left hand is data that's sourced from the speed test application Ookla. And what that shows is that the average speeds that our 5G customers are enjoying is twice that of 4G. So if you stand in a given location and you do a speed test on a 5G handset, and a speed test on a 4G handset, you'll see twice the speed compared to the 4G handset. And we are receiving very positive feedback from our customers in terms of the experience they are achieving. And when we do some comparisons using the same source of speed test data, we are seeing that our average 5G speeds are faster than our competitors' 5G speeds as well. So that's great, and it's great for our customers.

So now what I want to do is, before I get on to showing our spectrum roadmap, I just want to make sure that you understand some of the basics of the spectrum assets that we have. So we have three categories of spectrum, what we call low band, mid band, and high band or millimetre wave. So low band is a spectrum that's below one gigahertz. So today, we have our 4G 700 layer, which is our coverage layer, that's in low band. Our 3G spectrum, which is at 850 megahertz, that's what we're going to repurpose to 5G.

So what's the benefit? With the low band, you get extensive wide area coverage, not only in terms of geographical coverage, but also into in-building penetration.

And that's typically used for mobility purposes. Our mid band, the mid band spectrum runs from 1 gigahertz to 6 gigahertz. Now we've launched 5G in mid band at 3.6 gigahertz, which is right smack bang in the middle. Now we have other mid band assets which are currently used for 4G. That's in the 1800 meg spectrum and the 2,600 meg spectrum. I am going to comment about that shortly. Now in terms of its application, it gives us medium to small coverage, depending on the antenna heights. So most of our towers gives us quite good coverage for mid band. And that's also if you like the best balance for us in terms of coverage and capacity, and once again, used for mobility use cases.

Now the high band, and that's really important, that's at 26 gigahertz. Now, if you look at the spectrum assets of low band and mid band and high band, you can see that in low band, we have a total of about 45 meg to use. In mid band, we have about 200 meg, a little bit more, so that much, a little bit more carrying capacity. But what's really important to understand about millimetre wave is that the government is going to auction over 2 gigahertz of that spectrum. Now, that is the spectrum that is going to really provide the massive capacity and the really high speeds that 5G is going to bring us.

So as I said, today, we have twice the speeds of 4G. With access to millimetre wave is when will get the six to eight times the speed of what 4G is. So that's really important for you to understand. And the use cases for that will vary from enterprise and industry applications, and also fixed wireless as it's being used in the US today, because in the US, they don't, they haven't launched with either low band or mid band, they've launched at millimetre wave at 28 gigahertz. So hopefully that's just given you a bit of a baseline understanding of the spectrum bands that we're going to use.

So the next slide shows you the roadmap. So what I'm going to talk about here is the use of our spectrum, but also some technology features that takes advantage of the spectrum, and just a linkage to some of the devices which are coming on this roadmap.

So if you look at the top line, one, that's our launch mid band spectrum at 3.6 gigahertz. Now, we said we will start repurposing the 850 low band from 3G, and that's what we're doing. We're doing the preparation for that. We've actually started testing the first of our sites at 850. We're doing some testing with some devices, and we're getting very good results. But here's the important thing to understand. There is a technology feature called carrier aggregation. So we use that extensively in 4G. And what that is, is where we take two radio frequencies and we bond them together. And that if you like, as an analogy is two lanes on a freeway, if you put them together, you get more carrying capacity, and you can push more data through. So capacity, and it gives us additional speed.

But what we're going to do with 5G in low band is that we're going to carry aggregate the 850 band and the mid band at 3.6 gigahertz. And the reason we're doing that is that the 850 will give us that better reach inside buildings. And that's what we're going to do and deploy in in our metro regions. So together, the 850 will allow us to improve the reach of the 5G network where the call will start up on 850, and we know from our testing, it actually pulls in the 3.6 gig into the building much better as well. So not only does it increase the size of the pipe, but it starts to now increase the reach of the 5G network.

So the first set of handsets which are going to use that will come on to the market mid next year. So we're really looking forward to that. And we will, as I said, progressively re-farm not only 850, but in time, we can start to re-farm the other low bands as well. But that's going to be a little bit down the track.

Now, the third one is around a new technology called dynamic spectrum sharing. It's a mouthful. What does that mean? So today, we have our 4G bands at 2600, so 2.6 gigahertz, and 1800. What dynamic spectrum sharing is going to do, it actually allows us to use the same spectrum band simultaneously for both 4G and 5G. So it's a really cool technology. So in a given area, if you're standing there, you can have a 4G mobile and a 5G mobile which supports dynamic spectrum sharing, and you can make a 4G call with the 4G handset, but at the same spot, someone with the 5G handset can make a 5G call on that same spectrum band.

So that's a major advancement, and how is it going to help us? It's going to help us roll out our 5G that much quicker, because we have 2600 extensively, particularly metro areas, and our network is upgradeable to support that dynamic spectrum sharing. Now the support for that is also going to come around mid next year. We are actually going to start doing our initial testing towards the end of this year, and that's going to really advance us in terms of our 5G rollout.

Then the next piece is around the high band or the millimetre wave band. So we know that that is going to be auctioned in quarter one of 2021. But from our perspective, what we want to do is we want to put ourselves in the best position to take advantage of that when that's ready. So we are going out and we're getting temporary licences from the ACMA, and we've got a fairly good plan in terms of different use cases, that we want to trial in millimetre wave, so that we're ready to take advantage of it, when we go to auction. So there's going to be no delay, as soon as the auction occurs, we want to start deploying it.

And in terms of the devices that come out for millimetre wave, obviously in the US there are handsets and devices that support, but that's at a high event, 28 gigahertz. But we're working hard with our chipset providers and our device providers to put us in a good position to start doing some earlier trials.

Now, I guess one of the things I just also want you understand is that we have these aspirations in terms of milestones, but some of the timing may vary because we are beholden to the vendors and the chipset manufacturers so some of these times and milestones slip a little bit.

Okay, so hopefully you've understood that, and you understood our aspirations in that area. The next piece I want to talk about is about edge computing. So, and I think Mike referred to it as well. So today, when you think about our core network, it's mostly in our large data centres, or in our primary one exchanges. So when I talk about core network, to simplify it, if you think about the endpoint, like a bunch of tiles in our wireless network, it is connected via transmission networks to the data centres, and in there is the intelligence that processes the data and sends it off to its endpoints.

Now, we know that with 5G, low latency is a very important differentiator. And what we want to do is to help create those use cases, we want to disaggregate or pull the functions, the network functions which are in software in our data centres, and bring them closer to where our customers are. That's to the edge. And that gives us two opportunities to create value. One is to create the use cases which bring to life these low latency use cases. But the second opportunity is that when we come close to the edge, we have an opportunity to work with our customers to take their IT workloads which are on premise, and bring them and run them on our edge. And they may be running those workloads on premise because, for example, like video analytics, it requires low latency. But for us, it's an opportunity for them to help their productivity and drive down costs in their enterprise or their branch by running it on our edge, and we provide the necessary security and overlay to manage that for them. So that's called the enterprise offload use case. And that also sees for the first time networks and IT start to actually converge. So it's a really exciting future.

And then the third thing is that once we're on the edge, we can open up that using APIs to allow additional value via third parties who want to use our services that we provide and open up through the abstraction layer through the software layer. So some really important and exciting developments in that area.

And so how do we bring that in terms of the use cases? So we have launched with mobility, and the first use case, I'm not going to go through all of them because of time, but with the office of the future, as I talked about, and we've done some trials with Commonwealth Bank in which we showcased at Vantage in September, where we ran, we created some network functions on the edge, but we also offloaded their key application, CommSec, and we ran it on the same edge, because CBA have an aspiration to have the infrastructure-free branch. And in that branch, we can have the 5G radio network, and if it's within a branch we can provide millimetre wave with a high capacity and speeds, and we provide the low latency by shifting there, and one of the applications around video analytics is running it on our edge. So that's a new opportunity for creating new value.

And similarly, there's 5G industry solutions. We know again, that with automation and robotics there are some opportunities there for low latency, and the immersive experience around new types of entertainment with 360 cameras, we demonstrated that again at Vantage, where we had, I don't know if any of you were there, but we had in Melbourne, we had a 360 camera on a beach on the Gold Coast, and we brought that immersive experience to Melbourne, so that the Melbournites could be feel jealous about being on a beach on the Gold Coast. So you walked into this igloo, and you just saw a 360 of a beach scene. And it was in real time. And it was using edge computing, and the 5G radio network, and it was in real time. So that's kind of what we can bring to light for the future. So look, there's a whole bunch of use cases, but we can maybe we can cover them at Q&A.

So just in summary, we've launched obviously the 5G network. We're making great progress in terms of expanding that coverage footprint out to the additional 25 cities. And we've already brought it in on 15 additional cities in the last six months. And we have got a defined roadmap of 5G use cases, which are going to create new value via the use of this new technology that we're bringing into life.

So I'm going to leave it at that. Thank you. And I think it's time for Q&A. So I'm going to invite the members of the management team to come up.

Q&A

Ross Moffat: Thanks Channa. Welcome to the Q&A session. So we might take some first questions from the room, and we'd ask that you identify yourself and your firm for the audience and our guests online. And we can kick that off now and then we'll go to the calls.

Sameer Chopra: Morning. Sameer Chopra from Bank of America. Just had a question on the enterprise market and particularly what you're seeing on mobiles there, if you can give us a sense around what's going on in postpaid enterprise mobile, what's going on with wireless broadband in the enterprise space, and also IoT. Are you seeing significant interest from customers? I'm trying to get a handle on where mobiles is going to go in the enterprise market. Thanks.

Ross Moffat: Do you want to take that?

Michael Ebeid: So a couple of things to answer your question. One, we are absolutely still seeing very strong competition in the market, as large enterprises are putting their mobile fleets to tender, we're seeing a lot of heavy competition there. But what's really good is that we are winning in that space. We are holding on to our customers and actually winning back some customers which is fantastic.

Certainly a lot of interest and continued demand on the IoT space. We're putting on something like 2,000 IoT devices each and every week. So that market is growing. And as Channa was saying, as we get stronger and different waves of 5G, that will enable us to do more in the IoT space as well. And so that will increase as well. So I think that will continue. So the demand is there.

We actually just yesterday issued a bit of research that we did around corporates and their demand for tracking and monitoring a lot of equipment, goods and services and pallets and things, which, depending on what industry you're in, and what we're seeing is that there is a lot of loss of goods and services and equipment across many industries. And so the demand for IoT is absolutely increasing. And we're seeing that.

In terms of other things with mobile, we're also seeing big demand in managed services of mobile fleets as well, that we're helping a lot of our enterprise customers with. So strong, strong business there.

Ross Moffat: Thanks. We might go to this side of the room now please.

Kane Hannan: Morning guys. It's Kane Hannan from Goldman Sachs. Just a couple for me, please. Firstly, Michael, just picking up those connectivity comments you spoke to and the 10 to 11% ARPU declines. Given Telstra's price position in the market, can you just comment on how you think Telstra will perform, whether we should be in line with those sorts of declines from here?

Secondly, just in terms of Telstra's core postpaid mobile brands, can you just confirm that they grew? I know there were some comments around prepaid and Belong, just confirming the postpaid Telstra brand grew. And then what you think drove the slowdown in the market overall, how much that relates to the consumer or the pricing changes that went through.

And then finally, just obviously what's going on in the decline in the legacy businesses in Enterprise, what NBN is doing in that market, how should we be thinking about the $1.5 billion in data and IP EBITDA? Would it be reasonable to assume that could halve in the next three to four years, or just how should we be thinking about that number? cheers.

Andrew Penn: Kane, thanks for that. I might make a couple of comments contextually and then Michael can add on the specific points around Enterprise and slow growth in postpaid handheld in consumer. I think if you step back and look at the data and IP market, which sort of goes to the last bit of your question, I mean, there's really three things that are sort of happening at the same time, which is creating probably a greater degree of change in that market than we've seen for some time.

Firstly, there's generally there's been increased competition and I think, as we've seen some of the fixed line, enterprise and consumer operators only, be impacted by the migration to the NBN, and that impacted their retail business, that's then had a collateral impact on enterprise, they've increased competition in pricing on enterprise.

The second is, as Mike said, we've seen software defined solutions. So SD-WAN are increasing in their capability and functionality. And thirdly, of course, NBN was always going to replace the existing copper with fibre. And we're now at the point where that's scaling up. So whilst on the one hand about two thirds of the homes in Australia are connected to the NBN from an NBN perspective, there's only about a quarter of businesses, so the enterprise side is lagging that cycle. And so that's why that's impacting there. And you pull all of those things together, what it's also doing is giving customers the opportunity to think differently about their overall connectivity, and think more about how do they bifurcate their services. So on the one hand, how do they take their really important transactions and needs and high capacity and high security on things like dedicated MPLS fibre with the likes of Telstra, but then use software defined to be able to then think about perhaps taking some of their branch networks as an example onto more distributed lower capacity fibre. And so therefore, that's how we were responding strategically.

And I think that it is creating a greater disruption in the market. I think the thing that we had not expected is, we obviously always expected NBN to participate on the basis that I mentioned, what we had not expected is that they would actually then over-build existing fibre. We knew they would upgrade copper to fibre, but we did not know they would over-build existing fibre to enterprises effectively in direct competition to Telstra fibre, particularly when the consumer network isn't actually rolled out and the number of homes is reduced in terms of what was planned. So that's relates to really the comments that I've previously made in that regard.

But our strategy is, and maybe I'll pass over to Mike just to talk about how we're responding and how we therefore target what our customers need, across the range of those services. Because I think there is an opportunity in here for us at the same time as it's clearly causing some disruption in the market. But Mike, do you want to comment?

Michael Ebeid: Yes, so just picking up on that. So a couple of things that in terms of our response, obviously making sure that we've got the right products from a business grade and consumer grade in the enterprise market is important to be able to meet those customer needs. I mentioned during my presentation that one of the things we are expecting in the market, particularly with the legacy copper migrating, is that what the NBN's enabled the market to see is an overall increase in the pool of fibre connections. And so I think that's going to double from where it is today.

So in terms of your $1 billion data and IP number that you mentioned, what I'd expect to see is that Gartner figure of 5% a year to occur. But then given the number of SIOs are increasing, we're going to see a mixed change of people going from high premium, MPLS type services to the lower grade internet services. So there's just going to be a change of a mix of that. And so overall, I'd expect it to go down, I certainly wouldn't expect it to go 50%, as you said, because of the fact that this number of SIOs will increase and will continue to be able to win and get our equivalent market share on the new SIOs that we're expecting, the new connections of the migrations from ISDN, as well. I think that's important.

I mean, if you look at, say, if you take Westpac as a good example, which was announced the other day, that is a good example of Westpac saying, "Hey, we want to still keep all our primary and critical services in a full MPLS service from Telstra, we're still maintaining that. But our branch network, our non-critical applications can go on a lower grade service, and we'll move that to the NBN". Now, we've won the NBN component of the TC2 service of that, so we'll retain that business. But you'll see a mix in the revenues from all the branch network being on a high premium network to a mix, and that's what I was talking about when I was talking about a hybrid network of having full premium grade and lower grade in an overall network. And I think that's a good example of having the products in-market to be able to respond with those things.

And then the third element of that is, of course, Westpac is still a very big client of Telstra's, and we do a lot for them in terms of all the other bits and pieces of the applications and services, managed and professional services as well. So the branch network is a component of our overall business, that's important to keep it in perspective.

Andrew Penn: And I think just the final point I'd add Kane is that and what software defined SD-WAN does in part, the software element and the WAN part of it actually gives Enterprise customers the ability to manage that more dynamically, and so that's why we've also got further SD-WAN upgrades coming through in the next couple of months. But Michael, just in the interests of time, do you want to comment just in terms of our great performance in terms of net subscribers in postpaid handheld mobile?

Michael Ackland: Yes. So in terms of our branded, handheld business, mobile handheld business, we did grow. We saw more of the growth though a bigger mix in in Belong and also in in our wholesale brands, but we did grow in our branded business as well.

In terms of what slowed the net adds, I think we've certainly seeing in terms of a slight lessening of the intense price competition we saw at the low end of BYO, and also less intense competition on prepaid from what we saw a year ago. But I think let's look at it over a longer time period as we go forward. It certainly probably reduced the level of switching in some activity in the market, whether that's been what's driven the overall reduction in net adds, I think we just need to wait and see. As we look forward, I think we see particularly the 5G devices coming into market as another opportunity to reignite interest in growth in the market.

Andrew Penn: But I mean, I think the point is, is that we're pretty comfortable with our share position first quarter based on all the data we know to date, and I think the slowdown is, it is in a way a point, the reverse. I think in the last couple of years, we've seen very aggressive price competition, and I think that's what stimulated a lot of the activity in the market in terms of overall subs numbers, and then we've seen that turn around, which as we've said to market previously, I mean, we think it's a good thing in terms of we're seeing strong upward movement in transacting MMC, which is the lead indicator of ARPU and services growth over the coming year.

Ross Moffat: Thanks Kane. Can we come over here please?

Roger Samuel: Roger Samuel from Jefferies. Just to touch on the Enterprise segment again, just wondering, why would a customer choose Telstra fibre network as opposed to NBN? I understand that your network is a lot better. But presumably with SD-WAN, as you touched on earlier, the customer can replicate the network resilience that you provide. And also, how does NAS come about? does it allow you to differentiate your services? Maybe that's why they choose to use Telstra fibre instead of NBN.

The second question I've got is on 5G for consumer business. And I know it's pretty early days and Andy mentioned that the speed has doubled the 4G speeds. What have you seen in terms of data usage on 5G? And are they paying more per month to access 5G? Thank you.

Andrew Penn: Why don't you go first Mike?

Michael Ebeid: Well, obviously I spent the bulk of my presentation talking about our differentiation in the market of why they would, why customers do choose us. But to your specific question around the resiliency part. One of the other things to really note is obviously our premium service is an uncontended fibre service. Customers who are predominantly going for the lower grade services in terms of the NBN services are contended networks. So depending what a corporate is trying to do with their various applications, whether it's an over the top cloud application or whether it's a critical service, you would not want to put your traffic, your corporate traffic on contended networks. And so that always remains a premium service for us. And of course, also, the resiliency paths that we have around the country is another added feature of our network.

The other thing, and Channa might want to comment about the differences as well, but also one of the other things that we find when we look at, you mentioned SD-WAN gives people more resiliency, it just gives people more optionality in how they manage an overall hybrid network, it doesn't necessarily give you resiliency on a given path. And that's very important to differentiate. SD-WAN doesn't increase your resiliency on the same path, it changes your ability to manage a hybrid network.

Channa Seneviratne: Yeah, that's correct. I mean, like the NBN, that's a layer two network. I mean, we're providing all the stacks above that with all the resilience that's built in. So there's a difference.

Michael Ackland: And then on 5G. So as we said, about a quarter of our Android sales so far, since July, have been on 5G devices. We expect that to lift as we broaden the range and particularly as we go and cover other brands in the future.

Around those who are experiencing it, as we said, double the speeds, around 60% of their data download is while they're on 5G. Yes, they're skewing to higher plans the people who are choosing 5G and we're seeing that, and we're also seeing on people who are choosing 5G devices, we're seeing a high percentage of port-ins from competitors on those 5G devices.

But to remind you of our 5G pricing, we have included 5G access on our $80 and $100 plans. It's a $15 charge for those on the other plans, but we've had a free trial going to the end of June. So we're seeing a skew towards the higher plan tiers, we're seeing a skew of port-ins from competitors, 60% of their download on 5G, 25% of handset sales so far, and we expect that to lift quite substantially over the next 12 months.

Ross Moffat: Great. Another question from the room and then we'll go to the call, please.

Fraser McLeish: Fraser McLeish, MST Marquee. Just a couple. On mobile pricing competition, some of the changes we've seen from your competitors, I mean, the competitive intensity goes in cycles. Do you think, it's been very intense for the last few years, do you think what we've seen recently is a turning point in your expecting less competitive intensity going forward?

And then just also one from Michael on Belong. Just on your fixed line I mean, you've got basically the cheapest plans in market at the moment on fixed line and seems to me you're kind of anchoring fixed line pricing down at those low levels. Does Telstra really need to be doing that, because you start to see some increases from other providers, but you're anchoring it down at those levels.

Andrew Penn: Thanks Fraser. Let me comment quickly just on the cyclicality point, and then

Michael will navigate carefully comments on pricing obviously in the market. And I think I sort of tried to allude to this a little bit in my opening. I mean I think if you look back over time, and you look at the generations of mobile technology, this is a very broad macro comment, but if you look at it through a global lens, what you will see is industry ARPUs and revenues tend to increase in the first half of the rollout of the period, and in the case of 4G, basically, that's gone from about 2011 to say, now, 2019. They tend to increase in the first half and then decline in the second half. And I believe that's for three reasons.

Firstly, customers are more willing to pay for a new technology when it's new. Secondly, the operators tend to have more capacity to differentiate on that point on having the G or not having the G at the early part of the period. So for example in 4G, we are absolutely first in leading, as we are indeed on 5G. Eight years further in, we still have a much better network on 4G, but just in terms of whether we've got 4G or not, we're not differentiating in that sense.

And then finally, operators having come out of the back of that cycle when ARPUs have come down, and then have just spent a lot of money on spectrum and radio access tend to demonstrate a bit more financial discipline in that next period. And so I think if you follow the logic of that cyclicality, I would absolutely say that our expectation would be that we would see ARPU and services revenue growth as we come into this 5G period. I mean, obviously there's a bit of a tailwind on ARPU coming out of the previous couple of years. But that's why we focus on transacting MMC is the lead indicator, and we're seeing the $2 to $3 improvement in that, which is essentially the price we're charging today relative to the price we were charging last year, and that will flow through. So that's our expectation.

Fraser McLeish: You might must be quite encouraged by the price changes you've seen, particularly from Optus. I mean, they're big moves.

Andrew Penn: Well, as I say, I think we're moving into that cycle. I won't comment on individual competitors, as you would probably appreciate, but I think that we put a lot of value out there for customers, and we continue to do so. But customers have had the benefit of, you know, we've got completely got rid of excess data charges. And that's our whole strategy behind the simplification of our products and without commenting on particular competitors, I think imitation is the finest form of flattery as they say, though I encourage others to eliminate excess data charges as we have, which will give an even better outcome for customers in Australia. But Mike.

Michael Ackland: I think you've covered it all. I mean, I think, to be honest, the latest changes, I think this is something we've seen in the last few months in terms of the way the pricing in the market has evolved and this is a this is another step. And we've seen similar in prepaid mobile as well, where things have settled. Look, in terms of Belong pricing, Belong plays a role for us in the market, we review pricing on an ongoing basis and we will continue to do so.

Ross Moffat: Okay, we might need to take a call from the line, I think we've got Eric Choi from UBS on the line.

Eric Choi: Hey, guys, I just have three quick ones, if that's alright. Firstly just on mobile, and I apologies if I'm jumping the gun a bit. But you've said gross margins to return to growth within the next 12 months. So just wondering, do we take that to mean potentially down first half 2020, but up second half 2020? And then within that, are we assuming that ARPUs can stabilise the second half 2020 versus the first half 2020? That's question one.

And just secondly on data and IP again, I guess the challenges have manifested as lower revenues predominantly. But you've still been able to reduce that data and IP cost base every year. Just wondering, with more of your IP, VPN carriage revenues over NBN now, do we potentially see that cost base starting to flatten or step up?

And then just lastly, apologies if this is more for the second Q&A, but we reiterated the $2.5 billion dollar cost out as well. And just worried that some investors might not be across that some of that cost out is already embedded in that $3.4 billion NBN gap or whatever it ends up being. So can we just confirm how much overlap there is between those two? Thanks.

Andrew Penn: Yeah Eric, Andy. I'm just conscious of time, but just quickly. On the ARPU point and the improvement in the mobiles market, I mean, I won't provide any more colour on exactly on the timing. I mean, we're trying to be helpful in terms of seeing, suggesting what our outlook is, but trying to be more finessed than that, I can't be. But what we're saying is over the next 12 months, we expect underlying GCM and underlying ARPUs to start to hit an inflection point. So you can assume that the inflection point is sometime over that period.

There's a little complexity in ARPUs as we go from our old type plans to our new type plans, and of course ARPUs are impacted by the mix across Belong and branded. And so you need to take some of that out. But I mean, essentially, the point is economically we expect that to be the trend over the next period of time,

I think on NBN, sorry, on data and IP and NBN, the point, I'm not sure if we covered earlier of course, is one of the significant points is that if we are basically going to a customer and providing them both an NPLS high quality, fixed data link from Telstra, and then using NBN, of course, we save the capex spent on the NBN element of it. So that's not quite your question, Eric. But on costs, I think no, there's more that we can continue to do as it flows through our program.

And then on the $2.5 billion, I might just leave that until the second half if that's okay, just because we're short on time, but then ask Mike and Michael, if they wanted to add anything on what I've ...

Michael Ebeid: The only thing I'd add, Eric, is your question about customers taking premium service over the NBN. So as NBN rolls out, and customers are moving, particularly from copper to fibre, and that pool grows, if a customer does want an ethernet uncontended service via the NBN, that's actually good economics for us, because we are leveraging the NBN network, not needing to spend our own capital in those new builds. So that's actually a good result. And that's why we can mix and match depending on defending our fibre customers, they're on our network today versus the growing part of the market. So we get to leverage both.

Ross Moffat: Okay, thanks for that.

Andrew Penn: Actually, sorry, just by the way, just because it got raised now, going to your point Eric, the thing to say on productivity, and we will cover this when we come back, is that to the extent to which there's overlap in the $3.4 billion, [*Editorial Note: Andrew Penn's comments were clarified by Vicki Brady in her presentation (see page 36 of transcript) - i.e.* "What Andy meant to say was that the cost reduction related to the exit of our legacy access network as a result of the NBN is included in our $2.5 billion target."][2]

Ross Moffat: Okay. We might take one more call from the room and then I'm going to have to go to a break, and then anyone we haven't gotten to we'll pick up on the second Q&A session.

Entcho Raykovski: Thanks, Ross. I'll make a quick. Entcho Raykovski, Credit Suisse intro right. So firstly, one for Michael, you mentioned 1.8 million services on the new mobile plans. Can you give us, I mean, if not precise, at least a rough idea of what the split is between the different plans and how much take up you're getting particularly for the large and extra large plans? And then secondly, NBN Co have made some changes to their wholesale pricing obviously announced yesterday, going into the final details. Can you give us an idea of whether you see any material benefit from those changes? Either near term, longer term?

Andrew Penn: Can I maybe pick up the second part of the question and then ask Michael to comment on the first part. I mean, the bottom line is in relation to the NBN changes yesterday, no, we don't see any, there is no pickup from that from us. I mean, the simple point is, is that I think NBN themselves said that their corporate plan hasn't changed. So their outlook on ARPU hasn't changed. And given that their ARPU is our cost, by definition, ergo, it follows there is no upside from that.

I mean, I would say I recognise that obviously NBN are working within constraints, economic constraints that they have to meet. But the net net is that isn't material, and I know they're doing their best to finesse the modelling there. But I mean, I think our issue with the pricing is still that, overall, the pricing levels are too high, and secondly, in how they're managing those pricing changes, unfortunately, they're creating more complexity into the system. So they've introduced a 100 over 20 plan. We've got customers that are currently on 100 over 40, we're now going to have to build a new product, and think about how we migrate customers, and complexity for customers in terms of why some are on 100 over 40 and 100 over 20. I think the continued uses of discounts and offers just adds again, more complexity and creates uncertainty. We note the CVC approach to national pricing, and that obviously helps efficiency in managing it. But you know, we have an issue with the CVC price.

[2] Verbatim "we are not double counting. Our actual cost out is more than $2.5 billion, because some of it is actually in the NBN impact as well. So, we're not double counting, but I'll get Vicki to take you through that when we get to that point."

So I want to acknowledge that the team in NBN are obviously doing what they can do and responding to the market. But net/net our position remains fundamentally the same. It's the prices are too high. The structure is too complex, the CVC just adds uncertainty. And I think it's going to continue to hold back the retail fixed broadband market until we see more fundamental change there.

But going to the original part of the question, no, we don't expect it to have any economic impact by definition because NBN themselves are saying it doesn't actually change their outlook on ARPU.

Ross Moffat: Michael.

Michael Ackland: Yeah, I mean, the only comment I would make is we've seen a $2 to $3 lift in the transacting MMC, which is the minimum monthly commitment of all of our new and recontracting customers through the period. If you compare our actual price points from before the June 25, to after June 25, there was a small change in price, the majority of that $2 to $3 has been in mix improvement.

Ross Moffat: Great, thank you. So we're going to take a break now and come back at 11:00 am, so that's 13 minutes, and pick up again from there with Brendon Riley on [Telstra] InfraCo. Thank you.

[Break]

Presentation from Brendon Riley

Brendon Riley: Welcome back everybody. Well if we take a look at recent media headlines in our industry there's one pretty consistent and strong theme: infrastructure. And no doubt one of the key drivers is the increasing asset valuations generally, our low interest rate environment and an abundance of investment funds looking for opportunities and returns.

For operators around the world we've also seen the creation of a range of different infrastructure business models, and as we've looked at it most of the different models across the globe, there are five major drivers. Fibre demand, and the next G, which we've just been speaking about. Mobile densification and the rise of small cells. The ROIC compressions in the industry. More infrastructure sharing, and once again capital availability.

The great majority of the new models are focused on either fixed or mobile, but new net-cos are emerging Europe which cover both. There are examples that are regulatory driven, such as Chorus. There are operated owned examples like Openreach. There are private equity driven examples like Telxius and CityFibre. And of course listed companies like Crown Castle.

While we're just over a year old the wonderful thing is there are many case studies for us to learn from. In Telstra's case we've chosen to create our own infrastructure business. All of the activity that we've seen around the world validates our approach and we've got three key objectives. We have a significant infra portfolio. Being more transparent about the asset specifics, the commercial arrangements, and the value is one key objective. In creating separate business units we can also intensify our focus on these assets and run them as businesses to drive efficiency, customer service and growth. And we can also build out optionality. For the Telstra business, for [Telstra] InfraCo itself, for specific asset classes and to respond to industry shifts.

Linked to the objectives there are a number of dimensions to the [Telstra] InfraCo business we're looking to build out. So sustaining our position as experts in telco infrastructure, growing and evolving our talent base – both direct and through our partners. Developing a brand that is identifiable and unique. Growing and digitising our market offerings. Creating a purpose built infra-business which is profitable and attractive for shareholders and investors. And focusing on flexibility in our structure operating model and commercial arrangements.

While we’re a little over a year old the past nine months has seen a deeper process of alignment and review across the Telstra business. We've been obviously leveraging from the learning from other operators and reviewing the focus of [Telstra] InfraCo a little more deeply. And with Nikos and myself both new to our respective portfolios given [Telstra] InfraCo and networks are the predominant areas here, we've also been spending a lot of time reviewing the focus. We've also been examining how we drive value long term – long term value for Telstra shareholders, and how we balance out building [Telstra] InfraCo and sustaining Telstra's in-market leadership.

Also shifting to a more arm's-length commercial operating model between [Telstra] InfraCo and Telstra and that's aligned to other commercial models that [Telstra] InfraCo has already in place. Doing a detailed assessment of all the assets and the aligned workforce to refine the instate operating models for [Telstra] InfraCo and Telstra. And creating a management system to drive all of those work streams to deliver the outcomes aligned to T22 and of course manage the change.

As a result of the work over the past nine months we've taken the decision to make some adjustments to the asset accountabilities. One of the principles we've used to further review the asset accountabilities was to position [Telstra] InfraCo as the owner of the passive asset accountabilities, and Telstra continuing to own that active asset accountabilities.

Passive – think of linking to driving operational, capital, and fixed asset efficiency. In terms of the assets, passive for towers for example means the physical tower structures – power, the buildings. Active, which is linked to driving customer experiences and outcomes leveraging the passive – so for towers as Channa's just spoken about – think of all the transmission equipment, antennas and spectrum.

So the changes we're making are firstly all fibre will be an [Telstra] InfraCo. Originally mobile backhaul was excluded. However it's a relatively small percentage of the total fibre and we felt it's easier to manage fibre as an end to end asset class with Telstra being able to reserve the fibre it requires.

Mobile towers will move into [Telstra] InfraCo so all of the passive tower infrastructure both existing and for any new towers will be an [Telstra] InfraCo. Accountabilities for all the active equipment including Telstra specific huts and spectrum will remain with Telstra. We felt this was a better model and would give us balance as we focus both on improving the asset operating efficiency and having specific arrangements though SLAs to maintain Telstra's strategic differentiation in mobiles.

Network supporting infrastructure will also be in [Telstra] InfraCo. Our initial announcement indicated that exchanges were included in [Telstra] InfraCo, however there was a lot more work required to break down all of the infrastructure within an exchange, in terms of the accountabilities.

So again, anything that is passive which we've labelled "network supporting" is in [Telstra] InfraCo – so think of diesel generators, access control systems. And all of the active equipment remains in Telstra – think of mobile network servers.

On PSTN and legacy fixed in satellites, this was determined to be better placed in Telstra for a number of reasons. It's predominantly active in that it continues to serve consumer and business customers. The universal service obligation or the USO applies to these customers and there are clear active service levels which must be managed and adhered to. As Telstra will continue to own the USO obligation it made sense to keep the assets and obligations aligned.

In terms of managing these assets we also wanted to keep the workforce together in particular the copper workforce so we maintain our service levels. Also at some stage Telstra may wish to exit these businesses and retire the assets and as part of this all customers will need to be migrated to alternate solutions. This active migration process we also felt is better aligned as a Telstra accountability. So for all of these reasons we felt what is largely the copper infrastructure was best placed to be in Telstra.

There are resulting implications for the financials in [Telstra] InfraCo and you can see here the adjusted FY19 asset value for [Telstra] InfraCo increases to a total of $11.7 billion. The changes we're talking about here will be effected from the 1st of July 2020 and our financial accounts will be updated to reflect these changes from this date.

[Telstra] InfraCo has a broad and deep asset base as Michael has already touched on. 250,000 kilometres of optical fibre sheath. And you can break this down into three major categories. Inter-capital city fibre, inter-exchange fibre, and the fibre tails to premises. This services the needs not only of Telstra but our wholesale customers and NBN. There's still further copper to fibre migration to go. There's also an opportunity for greater fibre to the premise of connectivity, and there's new use cases emerging such as IOT and remote operations.

On towers we have around about 8,000 towers, masts and mobile poles. The tower business is very important to Telstra's mobile business and overall market position and that will continue to be a key priority. Towers are also subject to open access with a robust regulatory regime which has been in place for some time.

We have tenants other than Telstra on about 20% of our towers, so there is opportunity to further increase tenancy ratios. With accountability to build new towers [Telstra] InfraCo can also drive value in this area by supporting Telstra and other industry operators.

On to something really exciting: 360,000 kilometres of ducts. Relative to other countries we have a very extensive duct network with the two biggest tenants being Telstra and NBN. There is potential to drive greater usage of this network through our wholesale business and also with new customers groups which we will explore. Technology will play an important role in enabling the industry to access all of our infrastructure and one example of this is our soon to be released automated duct reservation system. With a new digital interface and through APIs we'll be able to take a typical three month process today and shrink it into a same day experience for investigating, designing and reserving duct space.

For our exchanges, while we have still a large number to rationalise and we've been able to put in place new lease arrangements of part of our T22 program, the location of our exchanges and the topology of the supporting fibre network are making these more attractive assets with the emergence of edge compute which Channa's touched on. There is scope to further update and improve a number of our exchanges to drive service levels and also open up these to new opportunities.

On our subsea cables – Michael touched on this, I've spoken about this in my old capacity – demand for international connectivity continues to grow in terms of our domestic consumption and the needs of international businesses and OTTs. It's a long-term business, it requires capital, and very good operational disciplines.

And then finally to our 160,000 small poles, we have a lot of these mostly holding our legacy cables and equipment. As the legacy network is retired this provides an attractive asset class for small cell deployments.

One of the other major value drivers for [Telstra] InfraCo is the long-term arrangements we have in place with NBN under the definitive agreements. NBN relies on access to substantial parts of our infrastructure portfolio to deliver their services. NBN remains a major customer and we aim to make sure our service and commercial arrangements support NBN going forward as their business changes. We are creating a similar commercial arrangement with Telstra and with both businesses [Telstra] InfraCo will have two substantial valuable long term customers.

As we work through the asset accountabilities we've also looked at the competencies. That is the teams, processes, technology, to manage the design, build, operate and maintain disciplines across the assets. Historically most of these competencies have resided within our networks team. However we've concluded it makes sense to align the competencies with the assets and this is driving a redesign of the [Telstra] InfraCo business and operating model.

It's our intent to table a proposed new organisation design with operating model and enter into a consultation in the third quarter of FY20. Part of the design will be to establish strong asset verticals with aligned competencies from financial management and leadership. This will lift the transparency of these businesses for customer offerings and financial returns.

Supporting all of the asset businesses will be a set of horizontal core capabilities which will run across the life cycle of the asset classes. This will be important to drive our operating efficiency, partner supply chain and capital management. When implemented subject to consultation this is likely to require a shift of capabilities from networks into [Telstra] InfraCo.

Over the past year we've received a great deal of interest in [Telstra] InfraCo from investors, advisors, consultants, and our customers. And it's clear the market appreciates the assets we have, the value they drive, and their long-term potential. It is important to remember though that [Telstra] InfraCo is pillar 2 of T22. It's about designing, controlling, managing, and growing [Telstra] InfraCo as part of T22. The first stage in this cycle is standing up a purpose designed infra business unit. And there are some key focus areas which include continuing to support our customers with our current offerings and services, looking for immediate asset efficiencies, building out the next set of inter-company arrangements between [Telstra] InfraCo and Telstra. This will move the commercial arrangements to highly detailed SLAs for each asset class. This is a change from the initial SLAs which were based on an aggregate consumption model.

The revised asset accountabilities, new organisation and leadership will also enable us to create the required detailed asset-based financials and reporting. There's always a lot to do on our IT systems and core processes, and we are also using the opportunity to further simplify and change these as we evolve [Telstra] InfraCo. We expect to complete stage one by the end of this financial year.

Stage two is more focused on the asset businesses themselves and building value. We will establish separate legal structures for different asset groupings. For the asset businesses we'll complete further assessment of market opportunities, refine the market offerings and layout the value story. This stage will also be where we think about the brand and capabilities we need to build around talent technology in our partners. We'll be better placed to assess partnership opportunities to drive our operating efficiencies for growth. And we can also leverage funding optionality, that is optionality for each asset business and also for [Telstra] InfraCo as a whole.

Over the longer term one of the objectives is to create optionality in a post NBN world. And so the management team and board are focused on building out the structures, operating models and disciplines which create the options to maximise shareholder value.

A final point is while we are committed to deliver on all of our T22 milestones, pillar 2 of [Telstra] InfraCo included, it's a very comprehensive program with a lot of change to be managed. The staged approach we're taking with [Telstra] InfraCo does enable us to manage the execution, ensure we get the balance right between driving market outcomes and standing up a new business unit.

I wanted to provide a little more colour on how we're thinking about [Telstra] InfraCo's structures that are likely moving forward. We still have a lot of work to do and fine tuning to do in this regard. By creating separate legal structures for [Telstra] InfraCo and the asset classes along with the aligned financials and business models we'll be able to respond to a wide range of scenarios. We're endeavouring to create as much flexibility as possible for [Telstra] InfraCo and for Telstra with the portfolio in terms of both market outcomes and value.

In this model a fibre co and a tower co could be created with each being run as an independent business within [Telstra] InfraCo. The ownership structures of the co's could be managed to drive growth, open up co-operative arrangements or to maintain Telstra's market position in key segments. It would also be possible to separate individual assets more simply based on market opportunities. [Telstra] InfraCo can also continue to leverage from Telstra's corporate functions through shared service arrangements so we minimise duplication. Again, a lot more work ahead of us on the structures and the business model flexibility.

And that really brings me to a close. We're off and away with [Telstra] InfraCo as part of T22. We're a little over a year into the program and as Andy and I have mentioned it's about building out our transparency, operating efficiency and service delivery. I think the approach we're taking has a lot of similarities to other approaches around the world, although we do have some unique attributes here in the Australian marketplace. We're going to evolve our offerings, our asset disciplines in our organisation. We're going to take a multistage approach to building this out and driving value, and of course we're always going to have you, our shareholders, in mind as we do this.

Thank you very much, and with that I'm going to introduce our Chief Financial Officer – Vicki Brady.

Presentation from Vicki Brady

Vicki Brady: Well good morning and thank you to Andy, Mike, Michael, Channa and Brendon for this morning's presentations. At our full year results in August I described my key areas of focus to deliver value, and I'd like to wrap this morning up by returning to these.

Let me start with T22 and how it's translating into financial benefits. As you've seen throughout this morning's presentations significant progress has been made across the four pillars and two enablers of T22 since its launch last year. T22 is doing multiple jobs. It's about delivering cost reductions and simplifying our business. It's also importantly about delivering revenue and profit margin benefits. While remaining focused on delivering operational outcomes from T22 we also closely monitor the leading indicators that show the ways these outcomes translate into financial benefits for Telstra.

For example, under pillar one of T22 a lot of the things Michael spoke about this morning radically simplifying our product offerings, eliminating customer pain point and creating all digital experiences. An operational outcome that has received a lot of attention is our massive reduction in the number of consumer plans along with no lock in service contracts and device contracts, you can simply pay out if you decide to leave.

The commercial impact includes improved customer experiences, better differentiation from our competitors, and net price increases. We have developed a new financial leading indicator called transacting minimum monthly commitment, or TMMC, which represents the average minimum monthly commitment excluding hardware of new and existing branded customers that have taken up our new plans in the period. TMMC is a leading indicator of revenue and influences gross margin in our mobile business.

Another leading indicator we monitor carefully is call centre volumes. We know this is a leading indicator of both direct and indirect labour costs and therefore underlying fixed cost reductions.

My second area of focus is reducing costs and improving productivity. We continue to target cost savings and productivity across our entire cost base, not just our fixed costs. This approach will help ensure total costs are flat or declining each year with productivity offsetting increased NBN costs. In FY20 we expect total operating expenses excluding restructuring costs and impairments to decline with reductions in underlying fixed costs to offset increased NBN network payments and other variable costs.

As we've stated previously we expect one off NBN DA and NBN cost to connect to reduce to zero over time as migration to NBN completes. In addition we expect additional restructuring costs of around $300 million associated with T22 in FY20. Due to AASB16 accounting changes underlying fixed costs will now exclude operational lease costs associated with rent. Even though this change reduces the size of the bucket from which we can derive savings we have maintained the size of our cost out reduction target.

Let me now talk to underlying fixed costs in more detail on the next slide. In terms of our underlying fixed costs let me remind you of our productivity target. The target is to reduce fixed costs by a cumulative $2.5 billion by FY22 relative to FY16. The target is for net reduction and it includes absorbing inflation and reinvestment. For example, we will meet our $2.5 billion target despite rising energy costs, costs from some acquisitions, and foreign exchange head winds in our international business.

It also includes reduction in legacy access network costs due to migration to the NBN. I do want to just pause here and refer to the question that Eric Choi asked this morning in our earlier Q&A session. It's always dangerous letting the former CFO answer a question that is intended for the current CFO. What Andy meant to say was that the cost reduction related to the exit of our legacy access network as a result of the NBN is included in our $2.5 billion target.

We've made very significant progress reducing our underlying fixed costs. In the three years to FY19 we have achieved a $1.17 billion reduction and our trajectory remains on track. While we have been really pleased by this progress we are acutely aware that the task in this financial year is even greater than previous years. With FY20 being the single biggest year of underlying fixed cost reductions at $630 million. To achieve our target we are acting with urgency and making difficult decisions that enable us to keep up momentum.

As you can see on the slide we target cost reductions across three broad areas. Direct labour which is around 45% of our underlying fixed costs – indirect labour, around 25% of underlying fixed costs – and non labour which is around 30%. In FY20 our direct labour costs will continue to fall as we see the financial impact of the workforce changes we have previously announced flow through. Throughout FY20 and FY21 we expect to see a higher proportion of reductions coming from a decrease in indirect labour as a result of simplifying our business.

Areas of focus for future non labour cost reductions are energy, IT and software costs, business operations and logistics. We remain mindful that in order to achieve our cost reduction targets all aspects of our T22 strategy need to be working together to simplify our business.

The next area of focus I mentioned was free cashflow including working capital and capex. Looking at our capex, as stated in our capital management framework our target is a ratio of approximately 14% capex to sales. Our current outlook and business mix aligns with this, representing a significant reduction in both the absolute and intensity level of recent years. In FY17 to FY19 while we were making additional strategic investments the ratio was approximately 18%. In the four years prior to that the ratio was approximately 15%.

Post the NBN roll out we expect this capex to sales figure would trend closer to 12% than 14%. The lower capital intensity reflects both an ongoing shift in product mix to lower margin and less capital intensive products such as NBN resale and NAS, and the transition of ownership of the last mile of our fixed network to NBN and the capex requirements associated with that.

The deployment of 5G will involve significant capex as we extend our network advantage. However we plan to manage our current 5G rollout plans within these envelopes. At our FY19 financial results presentation I also said a focus would be building value in key products and growth opportunities. Today we have already provided detail on some products in the proceeding presentations. So I'll just make a few brief comments on these.

Mobile is continuing to return to a more rational market as we go through the evolution of 5G. We are encouraged by what we see. We have seen a sustained rise in our leading RPU indicator, TMMC of $2 to $3 in branded post paid handheld since the launch of our new plans in late June. However as outlined in our FY19 results post paid handheld ARPU is expected to decline in the FY20 by a greater rate than the second half of FY19 with the decline moderating in the second half of FY20.

In a slowing market our share of net adds has been strong, supported by our multi brand strategy. We are also seeing market pre to post paid migration stabilise. There are a number of trends happening inside our mobile business. Taking into account all these factors we expect mobile growth margin to return to growth within the next 12 months. For fixed major improvement in economics will require significant adjustment to NBN pricing. However we are doing everything we can to improve the things that are within our control. These efforts have seen our NBN cost to serve reduce around 20% in Q1 FY20 versus the prior corresponding period.

In Q1 we have seen branded bundles TMMC excluding Belong lift by around a $1. However we are seeing slowing momentum in fixed broadband net adds. Our expectation is that ARPU will continue to decline in FY20 due to ongoing migration to in market price points and an increasing mix of Belong customers in our base.

In data and IP, although the financial outlook remains challenging as you have seen from Mike, we have a clearly defined strategy around leveraging our Telstra fibre architecture and footprint advantage while also partnering with NBN, and continuing to support differentiation across all our products including product investment across Telstra fibre and NBN.

In NAS we are on track to achieve mid-teens profit margins through a focus on both cost reductions and profitable NAS products. We are also working on growth opportunities. We are making decisions to capture value from our infrastructure. Our international business continues to grow on a PCP basis as does Telstra Health, and we remain excited by the early signs and potential of 5G, especially our ability to extend our network leadership, differentiate our products, and increase revenue while lowering cost per bit.

Finally turning to our expectations for FY20. Today we are reconfirming FY20 guidance. A detailed view of our FY20 guidance ranges along with the assumptions and conditions upon which we have provided them, is shown on the slide. I'm going to touch briefly on several aspects. We will of course provide more detail when we present our financial results for the first half of FY20 in February.

On income our first half results will be the first time you can see the impact from accounting for our loyalty program, Telstra Plus. This will defer approximately $150 million of income as we've accounted for in our guidance. On free cashflow when we presented our FY19 financial results in August I indicated that we were likely to see a $1 billion increase in working capital. This is tracking as expected and is due to three factors,– the exit of mobile lease which will see $700 to $800 million of off-balance-sheet leasing come back on balance sheet, t he remaining outflows from restructuring costs announced in May 2019, and an increase in NBN receivables. The anticipated shift was factored into our plans and guidance for FY20.

Consistent with our guidance after excluding the expected in-year headwind of the NBN we expect underlying EBITDA to grow up to $500 million. More than 100% of this is expected from our target to reduce costs by $630 million with product margins in aggregate excluding NBN headwind and productivity to decline.

We also expect second half performance versus PCP to be stronger than first half with underlying EBITDA growth excluding NBN headwind and product trajectory, especially mobile, expected to improve in the second half of the year versus PCP.

Thank you. I'll now move to Q&A and ask Andy, Brendon and Ross to join me on stage.

Q&A Session

Ross Moffat: Right, I think we might start this session with calls from the line, and I believe the first question will be from Ian Martin at New Street.

Ian Martin: Yes thank you. Just a question in relation to [Telstra] InfraCo and the decision to include the mobile backhaul and towers. The experience in other markets when they've done that and completed separation is that the retail companies had a strong incentive to get back into some of that infrastructure in order to manage their own cost structure, their own on net margins, and so on – Spark being a good example. So I just wonder what's driven – how that plays out in Telstra, what's the – for instance the – you talk about the difference in value about $900 million with those changes. I wonder what the impact on earnings between Telstra Retail and [Telstra] InfraCo might be that reflects that change in value.

And also given the objectives to have a seat at the table post NBN completion has any of this been influenced by discussions with regulators and policy makers over how they see that separation regime evolving?

Andrew Penn: Thanks Ian, it's Andy. Can I just start by saying that we're setting up [Telstra] InfraCo for the objectives that we said the three very clear objectives: provide transparency, improve the way in which we commercialise those assets and thirdly to create optionality for the future.

There is a sort of a, a bit of a dynamic where people then therefore presume that leads to somehow a de-merger of our infrastructure assets. That's absolutely not a decision that we have taken. Nothing that we're currently contemplating – we said we wouldn't even contemplate that until after the NBN is rolled out. But it absolutely makes sense for us to structure ourselves in such a way that we achieve the first two objectives and then create optionality for whatever and however the telco market is going to evolve in the future. So I just – I know you didn't say that Ian, and so that wasn't in response to your comment, but I just really wanted to make, and land that point, because there's no presumption here that that is happening. So that's the first point.

The second point is just specifically in relation to your question on what's motivated it. No it's not got anything to do with any regulatory or policy discussions or discussions with anybody else. It's the simple point that as Brendon went through, is that what we're trying to create with infrastructure, with [Telstra InfraCo][3] is really highlighting and identifying our infrastructure assets and ensuring that we operationalise those effectively and manage those effectively. And to Brendon's point initially we had the mobile backhaul out and not as part of it, but in practical reality the mobile backhaul is several strands within an existing fibre link. And practically it doesn't make a lot of sense to separate them. So that's another point I'd make.

Another point I would make is if you think about the mobile infrastructure essentially I always think about it, there is five elements to it really, there's the core, which actually Channa talked about a lot, and that's where we're doing a lot of standalone 5G – and there's that aspect of it. There's the physical tower. There is the backhaul to the tower. There is the radio access equipment and all the technology and the active technology in the antennas and the radio access network. And then there's the spectrum.

Now the passive pieces of those which Brendon talked about which are the physical tower and the backhaul are already subject to open access obligations from a regulatory standpoint. We already have to provide access to our towers to our competitors – then they can apply to do that, and vice versa. And there's a lot of tower sharing that actually happens in the industry. The active piece which is where all of

[3] Vertabim "Infrastructure Co"

the differentiation and the strategic imperatives sort of come from and in the spectrum and in the radio access network and 5G and everything that we're doing with Ericsson is all basically in Telstra.

And then the final piece I would make is that – and the way in which Brendon is setting this up, is that to the extent we even think about optionality, we're setting it up in individual asset classes, and we could easily treat individual asset classes very differently when it comes to an optionality point of view. So we're a leader in mobile telecommunication, not just domestically but globally. Our absolute commitment is to continue to do that and we will do everything that we need to ensure that we protect and maintain our differentiation in that regard.

And this is also a bit about a learning exercise as well so as we set this up and one of the things goes to the last part of your question Ian – sorry the long-winded answer – but in terms of the economics of it as I think Brendon commented on, we're currently working through the detailed inter-company arrangements in a lot of specificity which actually we'll tease out what's the right commercial relationship between Telstra and Telstra InfraCo and essentially the two parts. We've already got that at high level and we're reporting that, but we're actually going through it literally asset by asset, line by line, service by service. And then that will actually tease out the economic relationship.

Sorry, I've probably answered all of your question.

Brendon Riley: No, no – you did a fantastic job. The only thing I was going to really accent Ian was Andy's last point, that we're building out all of those SLAs, and we are able to leverage learnings from other markets, and how other operators have potentially had some challenges in that space.

Andrew Penn: And I think the point being is that – the point of doing this now and setting it up and setting it up in this way is that we're learning so if we get the asset perimeters a little bit wrong we will adjust them accordingly.

Ross Moffat: Great. We've got another call on the line. It's Brian Han from Morningstar.

Brian Han: Thanks Ross. I've got three questions. Firstly Brendon, are there any restrictions, Telstra's arrangements with NBN that prevents [Telstra] InfraCo from say selling off a partial interest in the ducts and pipes portfolio to a third party?

Brendon Riley: Well we're not selling off part of the portfolio so that wasn't what I said in my comments, so we don't have a plan to do that. And under the DA arrangements there are a range of NBN consents that are required for Telstra to undertake a range of different activities. So that would be my answer to it. We're not moving down that path and yes there are a range of matters that would need to be – we'd need to consult with and gain NBN consent on.

Andrew Penn: Which would – therefore it would be dependent on the specifics of any situation as to whether we did or we didn't.

Brian Han: Ok. And my second question is to Vicki – can you please confirm that your capex to sales guidance excludes any spectrum purchases.

Vicki Brady: That's correct – it does exclude spectrum.

Brian Han: Ok, thanks. And last question for either Michael or Channa, it seems every telco is saying that it is the 5G leader. Can you please give us an idea as to how far ahead Telstra is relative to its competitors in terms of 5G roll out or anything other metric?

Channa Seneviratne: So I guess we are – we define ourselves in terms of our rollout. So we have launched as we said, initially in ten cities, and we've gone out to already 15 additional cities beyond that. And I'm not sure that our competitors have gone out beyond the capital city. We've also –the other benchmarks we use is in terms of our speeds that we're seeing. And as I said at the presentation our speeds are on average higher than all our competitor speeds. So those are some of the metrics that we use to define ourselves as leading in the market.

Andrew Penn: And maybe Channa I can add, if you look at it through a global lens, basically the people that have launched 5G, Verizon in the US –Verizon has launched predominantly a fixed wireless solution. As Channa highlighted earlier the reason that they have done that is there is no mid-band spectrum currently available in the US, so both AT&T and Verizon only have 28Gigahertz and 39Gigahertz. And candidly those spectrum bands are not really conducive to a mobile offering. So in a sense if you want to launch 5G in the US you've really got to be offering that as a solution.

Korea is actually pretty well advanced on 5G and the Koreans have got hard behind it. KT Telcom and the other Koreans obviously and Samsung are producing the radio access network equipment. And so obviously South Korea is quite a densely populated market. The UK, you've got EE has launched, but basically Telstra was amongst the top two or three companies in the world to launch, and we all launched candidly within a few days of ourselves. And we are still very much ahead.

And in terms of – probably other than Korea in terms of a dense population coverage, proportion of devices that we're selling that are 5G capable, we're probably second only to Korea I would say. And then of course domestically we're in a very strong position vis-à-vis our competitors. I don't like to comment on our competitors strategy but I think all the work that Channa and Nikos and the team have done in terms of the core network, in preparation, how we've structured it architecturally from the perspective of our roll out – we are rolling out a mobile contiguous network and our vendor selection, our partnership with Ericsson and how we've structured all of that I think puts us in a very strong position relative to our competitors domestically.

Brian Han: So Andy while I have you there do you think the cost of our high band spectrum to be material?

Andrew Penn: Look firstly it wouldn't be appropriate for me to comment on what we expect the auction to economics to be for obviously – for probity reasons. But look I think to be honest it's a bit hard to judge at the moment. I think there's only been a couple of incidences of high band spectrum auctions globally. And I think the reality is that the use cases around – and also the performance of radio access equipment in the high band is still actually sort of evolving. So as Channa pointed out as he went through the chart, the advantage in the high band is you've got – in Australia we're going to have 2.25 Gigahertz. To convert that that's 2,250 Megahertz compared to 40 in low band. So you can see where the capacity difference is.

But the propagation is of course that much shorter, and also the interference impacts within that propagation are greater. And so there's still a lot of work that's going on just in the technology innovation side in terms of improving that whole experience. And how that plays out will then determine how effective high band is and for what use cases, and that I think will ultimately be the thing that drives the value of the spectrum in the longer term.

Ross Moffat: Ok, we'll take one more call from the line and then we'll get to the room. I think we've got Eric Choi at UBS. You there Eric?

Eric Choi: Hey guys, yeah thanks. There's three quick ones – sorry. First one just for Brendon. In that scenario where [Telstra] InfraCo were to split off, can you just confirm we're putting in protections to make sure retail co keeps its network premium?

And then just on [Telstra] InfraCo again, following on the points around transparency and commercialisation, I guess at the moment we only know the book value of those mobile towers is about $1.1 billion which sort of implies 180,000 per tower which to me feels like a bit of a lowball. So I'm just wondering if you can give us a feel for what the EBITDA and the EBIT contributions of those mobile towers are so we can make our own assessment.

And then just the last question for Vicki – can we just confirm that $150 million deferral is an annualised impact. And then can you give us a feel for what happens in '21 – like do those deferrals build again as we sign more customers on to the loyalty program? Thanks.

Brendon Riley: Probably to the first question Eric, I think one of the advantages about the approach we're taking with [Telstra] InfraCo being part of T22, and that's really been an intense part of the focus over the last nine months, is making sure we absolutely get the balance right between creating an InfraCo business that we can go drive but also sustaining Telstra's competitive advantage in the mobile market. So that's just not something that we're going to compromise on and back that into the agreements and the SLAs we have. We're going to reflect that in all of them.

Your observation on the book value of the towers is quite astute and what we've got to do over the next six or seven months is really build out the asset financials more, and I think when we've done the tower asset financials in a little more detail then I'll be able to provide those to you and I'm sure you'll be able to come up with an appropriate evaluation.

Andrew Penn: And I think that's the point isn't it Brendon? I mean it's not for us – to be respectful to tell investment community how to value certain things. I mean I think part of the [Telstra] InfraCo thing is actually to provide transparency into the assets and the economics etc, so that you can formulate whatever judgements are appropriate to do so. But I just want to keep reinforcing the point – nobody is more committed to our network premium, our differentiation, maintaining that than we are. That is absolutely paramount. In relation to the passive asset part of the mobile network that is already subject to open access regulation. In other words competitors can use it and access it and in relation to significant differentiation aspects around spectrum and the radio access network, that is all in Telstra – in the other part of Telstra. And then the commercial agreements, the inter company agreements we're putting in place, are absolutely making sure that we preserve our network differentiation and network leadership and network advantage. I can't make that point more strongly.

Ross Moffat: And Vicki?

Vicki Brady: And Eric your couple of comments on your question related to loyalty accounting. So firstly the $150 million is the [full year][4] amount that we will defer. That will continue to grow. Obviously we're in the early stages of our loyalty programme so as customers join and as more points get accrued and deferred that will grow. Just to give you some insight, at the first half results we will show our service revenue gross of the loyalty deferral and then we will show the amount of the loyalty deferral so you can see it separately. The other important thing is it will be a deferral out of service revenue as the point are earned, and we expect as customers redeem they're likely to redeem for example hardware, mobile hardware, and we will then release those accruals back into the mobile, or hardware line. So we will talk more about it at the first half results. But just wanted to give you visibility – that will be as part of our results shown, and it is also absolutely captured in our guidance for the year.

Eric Choi: That sounds like it's impacting the ARPUs potentially as well. Is that the case Vicki? Is that captured in your ARPU comment today?

Vicki Brady: So we are going to show ARPUs gross on gross service revenue – so try and avoid the impact of that loyalty deferral as we look at the trends on our ARPUs.

Eric Choi: Thank you.

Ross Moffat: Great. Now we might come back to the room. Can we start over this side please and we'll try and get through everybody.

Entcho Ravkovski: Thank you. Entcho Raykovski, Credit Suisse. Three from me – firstly on capex to sales. Can you give us a little bit more colour on how you expect that to trend going forward between the divisions? So if we're thinking about going forward, fixed, data & IP, is it fair to assume that's sitting somewhere in the single digits and maybe higher in mobile?

And then I guess as a follow on to that how much capex should we be thinking about being allocated to [Telstra] InfraCo? I appreciate we've got to make our own mind up as to where we value that but that would be quite helpful.

And just finally NBN cost to serve, Vicki you mentioned it's down 21%. Where is it actually sitting now? Are you able to give us more detail and do you see much scope for improvement from here?

Vicki Brady: Ok, so quite a few questions there. Why don't I start and Andy may want to jump in and comment as well. So firstly if I start with capex, your question around how is

[4] *Verbatim "first half"

our capex allocated across our various parts of our business? We don't generally break it down but no surprise a big proportion goes into our mobile business. We would expect over time obviously as we exit our legacy fixed business as I talked about our capital intensity comes down, because we don't have that last mile. And our data and IP business – you know, Mike spoke about today, we still see the Telstra fibre footprint important and a differentiator for us. And so there would still be capital going into that part of our business. But Andy I don't think we generally give a breakdown of the capex to sales by our various parts of our business.

Andrew Penn: No, I mean I think – I mean all I could do is add to what Vicki is saying. Obviously in things like NAS and reselling NBN, those areas are going to be capex in the lower single, middle digits, which are really around product development and some aspects of network that we need to put around points of interconnect on that type of thing. Data and IP still has a pretty big capex load because we're rolling out fibre. And then of course on the mobile side. And then there's a big investment that goes into transmission and just capacity back into the core and the aggregation layers within the network, and that's a little harder to allocate because obviously once it gets into the core traffic's coming from everywhere.

I mean what we have said is that over time we expect our capex to sales to be 14% over the medium term, but post the roll out of the NBN – and I want to be really precise on my words here because I know it's come up a few times, is that we expect it to trend closer to 12% than 14%. That's not the same as saying it will be 12%. It's saying we expect it to trend closer to 12 than 14. Ultimately – and the reason for that is as we sort of move forward and our mix changes a bit and we do a bit more reselling and a little less fibre ourselves, and maintenance of the copper network, then we get a little bit of a capex saving.

But bear in mind we still have to look after the last 8% and you can expect that's where a lot of the cost inevitably goes on the access network on the fixed retail side. But we do expect to get some savings and what they will be we'll obviously have a better idea nearer the time and then we obviously have to think about our choices in terms of the rate and pace at which we roll out 5G. So at the moment we're sort of managing that within our 14% but we want to be responsive to market opportunities, and if we decided to accelerate significantly we may want to think about the timing of some of those payments. But hopefully that gives you as much colour as I think we're able to at the moment.

Vicki Brady: And I think the final question related to our cost to serve for NBN and I talked about a round a 20% reduction in that. We haven't given an absolute and we're not going to give an absolute today, but we did want to highlight the productivity benefits we are driving are absolutely translating into our cost to serve. And I think as Michael spoke to this morning, he spoke about the smart modem penetration. Undoubtedly we're starting to see that benefit in our business providing a better experience for customers but also bringing our costs down as their experience is much more continuous with the fail over on to our 4G network. And I think I may have missed one question.

Entcho Ravkovski: Capex allocation to [Telstra] InfraCo – should we think of the majority being or sitting within [Telstra] InfraCo?

Brendon Riley: Yeah so today [Telstra] InfraCo is basically – own the assets, and which the change for outline we move to more managing the assets. So you could probably expect that we would get more capital to do that, but that's more a reallocation out of the networks team into the [Telstra] InfraCo team. So that's the work that we've got ahead of us in terms of the asset financials and the capital that's required over the next six months or so.

Ross Moffat: Can we go to our next question please?

Fraser McLeish: Thanks – Fraser McLeish, MST Marquee. Sorry Vicki, can I just ask you a boring one on depreciation amortisation. There's 4.3 billion I think excluding the leases, yet your capex, you're basically saying is going to be low threes for the next few years. Is there any reason we shouldn't model D&A to come down pretty much to capex?

Vicki Brady: It's a good question. I know a lot of people might think it's boring but we do spend time looking at it because it is important obviously to our net profit after tax. So the first thing I would say is when you look at our asset base we have a very large portion of legacy asset base that have very long lives. So you're talking about lives of 25 to 30 years. So it takes a long time to shift that because you've got a big legacy asset base, depreciation will flow though continuously at a fairly normal level or not reducing level over a long period.

The second thing I would say in the capex, our current capex we're spending, it does now proportionately start to move a little bit more to shorter life assets – things like software where you're looking at asset lives of maybe five years, not 25 to 30 years. So you know, I think logically you would say what you're saying is right, but I would just caution it takes a very long, long time to flow through into our depreciation just given the size of that asset base and the life of those assets. So I’d just be cautious – it's not a quick flow through as the capex reduces, that D&A reduces quickly. It will take a long period.

Ross Moffat: Over here please.

Eric Pan: Thanks for taking my question. Eric Pan from JP Morgan. I just want to go back to [Telstra] InfraCo – not to labour the point. But the decision to move your mobile towers into [Telstra] InfraCo is a pretty significant one in my opinion. You mentioned that you already have the obligation to open up tower access to your competitors, but hearing from your competitors they make it sound like there are a lot of hurdles to actually get on those towers, which is why they don't – you still have the competitive advantage in terms of network quality. What’s to say if in the future you actually spin-off [Telstra] InfraCo and it's run separately as a company, [Telstra] InfraCo won't have that incentive to make it easier for your competitors to get on to those towers?

Andrew Penn: Well can I say Eric that that's precisely why we're structuring it in the way in which we are so that the actual individual asset classes are actually structured separately because in that situation we would basically retain the towers within Telstra and not effectively separate them out. So that's exactly why we're setting it up in that way so we have both flexibility and optionality at the [Telstra] InfraCo level, but also at the individual asset class level. And we've just done that by virtue of the transaction that we've done on exchanges where we have bundled up a proportion of exchanges and allowed a 49% investment into them.

So as I said, I can't repeat enough how critically important the mobile differentiation is – you have to look through the various different aspects of the network components and it's the whole of that that gives us the differentiation. The physical towers, the main point they give us is coverage, whereas the radio access part of it which is in any event in the other part of Telstra, is really where all of our intellects and smarts around the performance of 5G and that all comes together. And then of course there's our spectrum position as well which is also there.

So it's the combination of all of those which is why we are so careful in terms of all of the arrangements we have in place. And we're structuring it in such a way that we would not, even if we were to somehow separate [Telstra] InfraCo, which is not a decision we've made – don't assume that that's what's inevitably happening here. We're setting it up for the reasons I mentioned. But even if that did happen, we would retain the towers because we're structuring it in that way.

Brendon Riley: And Eric – sorry if I could just add, one of the interesting things that I've been getting into over the last few months is looking at the regulatory regimes and they're extremely bilateral in nature. So we also have presence on some of our competitors towers as they do on ours. And the arrangements are very, very similar, going both ways. So is there potentially more opportunity for the industry to do more around sharing? There probably is. I think we've definitely seen that when you go and look at some of the other case studies in other markets.

Eric Pan: And then just the second question on Belong. Can you give us an idea of what price points are consumers taking up within the Belong family of products, and how do those margins compare to the group margin? The worry there is that the more people that get on Belong you risk diluting your group margins.

Brendon Riley: Maybe I'll look at Vicki or Michael – who wants to? Michael?

Michael Ackland: I don't think we disclose those price points. The only point I would add is in terms of our mix in the Belong portfolio in mobile, along with the lift in TMMC in our branded channel we have seen a lift in mix in our Belong channel – that's been deliberate. But I don't think we disclose those ARPUs.

Vicki Brady: No, we haven't. And the comment I would make on the margin front – yes on average Belong sells at a lower TMMC or price point to the branded business. It does also have a much lower cost structure, a very different proposition to customers around the service model. It does make a positive contribution so you know, we've deliberately set it up to be able to address that part of the market in a profitable way for us that we don't want our branded business to be part of.

Eric Pan: Thank you.

Michael Ackland: Thanks Eric.

Kane Hannan: Morning guys, Kane again – just two quick ones from me. Firstly just following on from Fraser's question around the D&A, given how long that's taking to roll off, would it start to make more sense to look at the dividend from a free cashflow perspective rather than EPS if the D&A is going to remain elevated?

And secondly just around the $2 billion in asset sales you guys flagged at the T22 day, just interested whether you're still committed to the remaining up to a billion dollars that are left in that program by June next year. And I suppose any more commentary around should we be expecting them to come from [Telstra] InfraCo or the like?

Andrew Penn: Let me have a go on both of those Kane. Firstly ultimately any change of dividend policy really is going to be a matter for the board. I understand the point you're making by reference to free cashflow rather than net profit after tax. That's now how it's currently structured. But I'll just take on board the comment and I can't provide any further because I think that's a matter for the board. But at this stage there's no change to dividend policy. And I'm not pre-empting that there will be.

On the asset sales, yes we are still committed to the two billion dollars of monetisation and we've got a number of initiatives in the pipeline that will manifest that. I probably can't say any more about that them just because that won't actually help the negotiating process in relation to those.

Vicki Brady: And I think it's important Andy, we always said it was up to two billion – we're a little over a billion of the way through it. It has put our balance sheet in an even further strengthened position, so I think the good thing is we're in a strong position there and on our credit metrics. So there's things progressing but we do have options and financial strength.

Andrew Penn: Yeah. And I think the only thing I would say, just to try and give it some colour, is that I don't think you'll see it as – I think you will see it as good solid, financially disciplined monetisation and value enhancing and balance sheet strengthening, rather than anyway changing the strategic nature of our business.

Ross Moffat: I think we're over here now please.

Nick Harris: Hi, Nick Harris from Morgans. Two questions from me please. Just to clarify on the [Telstra] InfraCo side of things – the EBITDA, obviously you've allocated more assets. Should we expect the EBITDA goes up sort of proportionately to the asset movement or is it broadly stable? Are there any material changes? That's the first question.

Second question was just on the submarine cable side of things. Clearly that's quite a big bit of the infrastructure business. You're investing in it. Can you just give us a little bit of direction on what's happening with the earnings there – are we seeing revenue on EBITDA growth, or is that really being absorbed by price deflation? And obviously into Perth we've seen quite a few cables coming through now, so I think we've got three, which is about two more than we had a year ago. Is that becoming a bit of a hub and you're getting a lot of inbound activity there? Thank you.

Brendon Riley: Maybe I'll take the first one. EBITDA was a slight increase and again we've got work to do over the next six to seven months, just in terms of the asset financials – to lay that out in a greater level of detail, which we will. And I might –

Andrew Penn: Yeah, and on the submarine cable business, and Mike's in the audience as well so he may want to add a comment, but look I think we're seeing great performance from the international business last year and we're confident that's going to continue. And we are investing in the network and there is competition obviously and some degree of price deflation at the per gigabit cost but also volumes are going up as well. And the opening up of the western seaboard through Perth back into Sydney, I think that just increases their overall value proposition. But Mike, I don't know if there's anything else you want to add on?

Michael Ebeid: No I think you've covered it all Andy. I mean the only other thing is those extra parts and the extra cables that we invested in is adding resiliency to the overall international network which a lot of our international customers really see as a benefit and a differentiator in the market. So that's a real selling point for us in the international market.

Ross Moffat: I think we have one more in the room, and then we may have one more on the line.

Sameer Chopra: I started it, I'll try and end it. I just have one question and that was on working capital Vicki. So if you think about it, the business has invested about six billion in working capital in the last six, seven years, or so. And there's another billion this year – what's your thinking about unwinding? Do you think this working capital gets unwound or does the business just need to keep the six billion in working capital just to keep sales going? I'm trying to figure out in the modelling, should presume that the receivables start to get unwound, and that there's extra free cashflow certainly in working capital. Thanks.

Vicki Brady: Look Sameer we continue to look at working capital, obviously managing working capital with discipline is absolutely a focus for us. We knew this year as I said we would have a big increase in working capital with the changes with deciding to exit our mobile lease proposition because that was the right thing to do for customers and the right thing to do to simplify our business. So we factored that in. Look there are a range of things we look at to manage our working capital. We will continue to do that, but we've got nothing new to announce at the moment in terms of any change to that. So I would expect it to stay fairly constant.

Ross Moffat: Ok, we've got one more question, I think it's on the line, from Ian Martin. Are you there Ian?

Ian Martin: Yes I am. Actually two questions if I may.

Ross Moffat: Sure.

Ian Martin: Just in relation to NBN pricing yesterday I note you said it didn't really change the margin dynamics materially, but just looking at the entry level product that does seem to have changed quite significantly and I know you've got a lot of voice only customers, but I think previously you've indicated were negative margin. I wonder how that looks now, and does it change the dynamics for Telstra in preferring to have those customers possibly on your mobile network rather than on the NBN. That's my first question.

And secondly the consumer data rights rolling out into the telco space over the next year or two, is that on your planning horizon yet and do you see that as a potential to continue that disruption beyond the migration period or is it possibly an opportunity for Telstra?

Andrew Penn: I am sorry, can you just elaborate on that last point about the data rights. What's the connection between that and the roll out of the NBN? I mean I understand the point about data rights, but – ?

Ian Martin: Yeah sorry, it wasn't particularly related to NBN. I thought it might affect that market more so than mobiles in that it's a much more fluid market once customers migrated on the NBN. We do see a lot of – it seems to me a lot more churn on NBN than we've seen in the fixed line market generally.

Andrew Penn: Yeah ok. Alright, I'm not entirely sure I know the answer to that question, but let me go to the first one first. I think, yeah to your point, we have several hundred thousand voice only customers and one of our points of advocacy in the submission to the NBN pricing review first time around and we continue to support, is we do believe that it would be beneficial for customers if there was a voice-only service and we're not yet seeing that. As you say, the price has been reduced on the 12/1 plan. But the wholesale price still comes up at about $30 which does not really facilitate an attractive voice only solution. So I think that's still a dynamic.

And I think the other point is that there is some irony in that the area where we've seen the most improvement in NBN wholesale pricing is in 12/1 plans which in a sense creates a bit of a perverse incentive for customers to go to the slowest possible speeds when the whole point of the NBN is to actually try and improve speeds. Now in fairness to NBN they've also brought the price down at the really fast speeds as well, although there is still ongoing challenges with the ability of most of the infrastructure to actually facilitate those high speeds as well.

So I think there's quite a bit of work still to be done there and I think the comments I made on pricing earlier remain that overall we think that they are too high – I was in the UK literally last week, spent a bit of time with Openreach, and the market there, and the typical wholesale price there I think is ₤12.50 – somewhere between ₤12.50 and ₤15 whether it's a VDSL service or a fibre service. So that's about somewhere between $25 and $30 compared to what the pricing here is in Australia. So that really I think demonstrates the distinction. So anyway, I've probably said enough on that today.

Look on the data rights point, I mean obviously consumer data and privacy is an important area. We are spending a lot of time on this. We have our privacy policy published on our website and it's an important topic I know that's going to be a continued part of regulatory interest as well. So I don't know actually the answer precisely to your question but let me take it on notice and if I've got any more further thoughts I'll try and pick that up in the half year results or at a future event.

Ross Moffat: Thanks Andy. And it looks like we have no more questions, so before we close I'd just like to offer back to Andy, if he'd like to make any closing comments, and then we'll break outside. For those in the room there are some refreshments and a chance to catch up with management.

Closing Statement from Andrew Penn

Andrew Penn: Yeah not really too much from me Ross other than to say thank you everybody for your interest and investment of your time today. It was from our perspective a useful opportunity to just give you the opportunity to get – hear directly from some of the management team. Give you a bit of a sense of what we're seeing in terms of the market dynamics particularly by customer segment. Give you a bit of an update in terms of where we're at in relation to T22. Do a bit more of a deep dive on 5G.

I think one of the things that I observe is that there's a lot of questions and comments and sometimes misunderstandings around 5G and you really need to understand the core technology, or technology composition, or the structure of the technology. And that's best done partly through the lens of the different spectrum bands and the sequence with which they are becoming available. And the properties of the different spectrum bands because that tells you a lot about the different use cases and what matters where.

And then secondly the evolution. And so to Channa's point 5G so far globally has been launched on a non-standalone basis which that really means is that the old 4G core is doing all of the work in terms of when customers come in and they're activated. When we get 5G core and the constraint on that is really as Channa said, just the development of the global standards and that's likely to come out in about the middle of next year. That's when you get into things like network slicing and a lot more of the efficiency and some of the cool stuff.

And it's also a function, a little bit of the device ecosystem which is also connected to the chipset ecosystem. And so we think that this week's been a pretty important point and we've got the first sub one thousand dollar 5G handset from Samsung, that's really cool. First quarter next year we'll start to see second generation chipset handsets come through. That will improve functionality and bring price points down again.

And then of course by this time next year we anticipate having iOS handsets on 5G available as well. And so our roll out and our strategy is very much aligned to that. So the deep dive on 5G, the deep dive on Telstra InfraCo. And I will remake two points: we have made no decision as to separate, demerge or otherwise [Telstra] InfraCo, and we are absolutely committed to our network differentiation retaining our towers. But what we do want to do is to hold ourselves to a higher discipline in terms of providing transparency on those assets and clarity on those assets and operational efficiency on those assets.

And the last thing I'll do is take note of my CFOs comments that former CFOs shouldn't talk about financial matters or questions that are directed to current CFOs. So unless I've missed anything Ross, thank you everybody so much for your support and we'll catch up with you I guess next at the half year results presentation.

Ross Moffat: Thank you. That includes our Investor Day.

[END]