IT'S HOW WE CONNECT

30 October 2015

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Transcript from Investor Day

I attach a copy of the transcript from the Telstra Investor Day held on Thursday 29 October 2015, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

TELSTRA INVESTOR DAY
29 OCTOBER 2015

MR P. KOPANIDIS: Good morning everyone and welcome. My name is Peter Kopanidis. I'm Telstra's Head of Investor Relations. On behalf of Telstra, I welcome you here both here in Sydney and those joining us via webcast to our Investor Day presentation. As an important symbol of respect, it is our custom at significant Telstra events to acknowledge Australia's first people. Today, therefore, I would like to acknowledge that we meet on the traditional land of the Gadigal People of the Eora Nation and pay my respects to elders both past and present.

We have a number of the Telstra executives presenting today, including our CEO, Andrew Penn, and CFO, Warwick Bray. Andy will provide you with a background on all our speakers during his session shortly. We will split our agenda today into two sessions, with Q and A from investors and analysts to follow after each session. There will be media Q and A at the conclusion of today's Investor Day at approximately 12.15. With that, I will now hand over to our first speaker, our CEO, Andrew Penn. Good morning, Andy.

MR A. PENN: Well, thanks very much, Peter, and good morning everybody. Welcome to Telstra's investor briefing and thank you very much for coming along. Outside of our annual results and annual general meeting, this has been the first opportunity that I've had to address investors since I took over as CEO just a little over six months ago, so I thought I'd take the opportunity to reflect on our vision, our strategy and our roadmap that we have laid out for 2016. I said when I started the role that you should not expect significant change in direction with my appointment, and that remains the case, because in my previous role, I was intimately involved in the development of our strategy and it is the right strategy.

What I have announced since my appointment though is a vision, a clear vision to make Telstra a world-class technology company that empowers people to connect. This is not a change of strategy, this is about raising the bar, because as our markets continue to evolve, technology pervades everything that we do. The traditional worlds of telecommunications and technology are converging and it's providing significant opportunities for Telstra, significant opportunities to expand our operations and the markets in which we operate, but it also requires us to invest in new capabilities.

At the same time, there is no doubt that the dynamics in our core markets have changed. The competitive environment has increased in fixed, mobiles and in media, and we're also further down the path towards the full migration to the NBN. And as the market knows, the migration to NBN has a material impact on the long-term financials of Telstra and NBNs most recent roll-out plan will see this completed by the end of calendar 2020. Over the last five years, we have achieved growth in mobile, growth in global enterprise services and significant productivity improvements, and this has enabled us to offset the loss of earnings from Sensis, reduced fixed voice revenues and the sale of CSL and TelstraClear.

Over the next five years, we will need to repeat at least the same level of performance to offset the negative impacts on our earnings from the NBN. In particular, we will need to continue to drive growth and our productivity programs further than before. Over the same period, of course, though we will also receive the one-off payment, the PSAA payments that partly compensate Telstra shareholders for the loss of long-term earnings from the NBN. These will, of course, cease once the migration is complete. Our capital allocation decisions during this period will balance the opportunities that we have for investment in growth and new capabilities with capital management initiatives and our key focus in this regard will, of course, be to focus on long-term shareholder value.

Warwick will speak further about the capital management framework that we use for making such capital management decisions shortly. In the meantime, what I'm going to do is spend my time this morning making some comments on our vision, our strategy and our clear priorities for 2016. I will then run through the rest of the agenda for today and, finally, I will make some comments on our financial outlook for 2016 and reconfirm our guidance.

Our purpose is to create a brilliant connective future for everyone. Our vision is to become a world-class technology company that empowers people to connect. As I mentioned before, the rate of technology innovation and digital disruption is accelerated. The demand for connectivity and technology right across the marketplace is growing and Telstra sits in the middle of these trends and it's why we need to become a world-class technology company, a world-class technology company with world-class customer service, world-class technology, world-class telecommunication networks and world-class delivery. And I want to comment on each of these in turn on service, technology, networks and delivery, because in a period of incredible technological change and disruption one thing remains more important than ever and that's customer service.

We've spent the last five years executing a program designed to put the customer at the heart of everything that we do and central to this has been the roll-out of the Net Promoter System. It has been a huge project given the size and complexity of the company and the number of daily interactions that we have with our customers. However, the information that it provides gives us great insight across all customer segments, products and transactions. The feedback that we receive from customers is then integrated into our planning and investment processes, and it's also integrated into our leadership incentive structures and it's what has enabled us to increase our NPS by five points over the last 12 months.

Of course the task is not done and I know we still have much to do to improve customer service at Telstra. We still experience too many points of failure too many times where we let our customers down and I am certainly not saying that we are anywhere close to world-class yet, but we have the systems and measurement processes in place to help us on that journey. And during my time as the CEO, my commitment is to continue to make customer service our number one priority.

Let me move to world-class technology. Of course technology is an increasingly important aspect of our services to, but also our interactions with our customers. It's also an increasingly important factor in how we run our networks today through network function virtualisation which is leading us into a world of software-defined networks. Telstra is no longer just a telephone company. Technology pervades everything that we do. We have access to some of the best technology and best technology thinking around the world and the benefits of this are already playing out in our network applications and services business, as you have seen the growth in that business, as we partner with some of the world's best technology companies to deliver solutions to customers.

In fact, today, the services aspect of revenue from enterprise and government customers is almost equivalent to our traditional carriage sales. Today we are already delivering world-class technology solutions. We have received numerous awards for our Cloud services as an example from Cisco, Polycom, Frost and Sullivan. Similarly, we have received multiple awards for our managed services and these awards are just simply proof points of what our customers already know, that Telstra is leveraging its deep technological capability and those of its partners from the around the world to providing leading edge networks and services for its customers in Australia and throughout the region.

As we look to continue to grow, we will continue to invest in and grow our technology capabilities, but it is also critical that we also invest in our networks. So let me move to the topic of world-class networks.

There is virtually no technology innovation today that does not fundamentally rely on an underlying communication network. Today virtually all technology is connected and the performance of that technology is dependent on the quality and speed of the underlying network, because technology disruption is breaking down the traditional barriers between traditional telecommunications and traditional IT and this is why we are committed to have the best networks.

In fixed, even with NBN, not all networks are the same. How the network performs in the home, the received experience of the customer are all critical points of differentiation which will continue to differentiate Telstra in the future. Our next IP network for businesses is the most reliable and extensible in Australia and can now be accessed from 230 countries and territories across the globe. It is also dynamic and intelligent enabling customers to scale bandwidth and deliver application level quality of service. Our data and submarine cable network now represents one-third of all lit traffic in the Asia Pacific region. This year it was recognised by Gartner as the best network for both low latency and high capacity, and, of course, our position in mobiles speaks for itself. In 2014, we were the first in the world to launch commercial LTE Advanced Carrier Aggregation for Category 6 devices combined with network support for up to 300 megabits per second download speeds.

In September of this year, we backed that up with the world's first Category 11 mobile hotspot, capable of peak speeds of up to 600 megabits per second, along with Australia's first LTE voice service of Voice over LTE. We're also the first to introduce services on the APT700 mobile band and the first to launch stadium event broadcast over LTE. This year, we won a Mobile World Congress award for our LTE Advanced Network for Emergency and Enterprise Services, LANES, which prioritises mobile network capacity to emergency services organisations.

This month, we also retained our position as best in test in the second annual P3 CommsDay Mobile Benchmark, not only winning that award – it's only half the story, though, because it only measures our performance in the network – our network performance relative to other networks within the footprint of their network. It ignores the fact that our network geographically is, we estimate, half – or, sorry, double that of our next nearest competitor. And finally, we received the Best Mobile Carrier and Asian Carrier of the Year award in 2015 for the Telecom Asia Awards.

Now, our obsession with network performance is not about bragging rights. You cannot deliver world-class technology, you cannot deliver world-class customer experience, unless you back it up with a world-class network. In additional to world-class customer service, world-class technology and world-class network, we need to also have world-class delivery, which brings me to our strategy.

I mentioned before that our vision is not a change of strategy. It's about raising the bar. It's about lifting our level of aspiration. As the NBN migration is closer to us now, we need to find new ways to move faster and execute better. In relation to the three pillars of our strategy, we need to find new ways to continue to improve customer advocacy and lift this to the next level, new ways to not only drive value from the core of our business but also growth as well, and finally, to find new areas of growth in which to invest and to ensure that we can continue to grow earnings over the longer term.

Now, against this background we are pursuing five priorities in 2016, which we will go into in more detail through – on some of these during the course of the morning, but in the meantime let me make some summary comments.

First, we continue to consolidate and invest in our network leadership. Telstra operates the largest fixed network in Australia, with over 5100 exchanges, 2800 ADSL-enabled exchanges extending ADSL broadband to 92 per cent of Australian homes and businesses, and with our extensive retail HFC broadband network passing over 2.8 million homes.

We use this network to supply services to retail and wholesale customers. Over the last two years, we have improved the experience for more than 2 million retail and wholesale customers on ADSL and HFC, with backhaul upgrades, port augmentation and customer migration, and over the next two years, we will continue to invest in our networks, significantly increasing our exchange backhaul capacity, port availability, and expanding our line quality across the country.

All of these fixed services are underpinned by over 225,000 kilometres of fibre, including the world's longest un-regenerated 100 gigabits per second fibre, spanning the country Perth to Sydney. Our recently launched Telstra Air service is Australia's most extensive Wi-Fi network, with over 4000 public hotspots already in service, including new Wi-Fi partnerships with councils in Queensland and Tasmania and with over 200,000 registered Telstra Air members extending this coverage via shared home Wi-Fi gateways.

In Asia, we will complete the integration of Pacnet, globally giving us almost 400,000 kilometres of submarine cable, representing one-third of all lit capacity in the Asia-Pacific region, as I mentioned, 125 – sorry, 58 data centres and 125 owned points of presence.

In mobiles, as you know, we have increased our capex to sales ratio to 15 per cent for 2016 and 2017, to extend our 4G and 4GX networks to deliver more square kilometres of coverage, better voice and data, fewer dropouts and faster download speeds.

Our second priority is productivity: to lift the level of aspiration on our productivity program. Warwick is going to go through this, in terms of exactly what it looks like, later, but there are still many opportunities to simply our systems and processes. Complexity drives bad experiences for our people and for our customers, as well as too much cost for our business. It also impacts advocacy. We will focus on improving productivity by realising synergies from acquisitions, including Pacnet, which Martijn will cover off this morning in his presentation.

Another area of focus for productivity is also our global contact centres, where we are focused on right-first-time objectives, and finally, eliminating costs as a consequence of the migration of – to the NBN will also be an important part of the productivity program. In today's session on productivity, Warwick will outline how we will measure our progress, not only an the gross level, as we have done in the past, but also how we are delivering productivity into the bottom line results of the business.

Our third priority for 2016 is winning in NBN and transforming the order-to-active process to reduce cost of migrating customers. Last month, we started to progressively transfer to NBN Co parts of Telstra's copper network, in readiness for the launch of its fibre to the node products. The activity represents a fundamental structural change both for the industry and in the shape of Telstra's business and financials.

Going forward as an access seeker, as opposed to the network owner and operator, we are determined to become Australia's leading provider of consumer and business services on the NBN network. As Karsten will discuss in his presentation, we are already a leading service provider on the NBN, and this is a position that we have fought hard for. We have a clear strategy to differentiate our services based on network quality, unique products and content experiences that are better with Telstra.

The NBN rollout is, of course, not yet at scale, but it will scale quickly if all premises are to be connected in the next five years. So it's important that we get our processes – particularly on the activation side – right, because it's not just about lowering the costs for Telstra. More importantly, it's about improving the customer experience. One example of improving the customer experience is the work that we are doing on further automating and digitising the customer connection experience, and this will further improve data accuracy, offer real-time validation and enable our customers to basically create their NBN order more quickly. Of course, there's a strong correlation between improving our processes and improving customer service and reducing cost, because ultimately it's about improving our NPS for our NBN customers.

Our fourth priority is the acceleration of our growth agenda. We need to continue to grow in our core business across our mobile, fixed broadband, data and IP portfolios, as well as our NAS portfolio. In addition, we will continue to invest in emerging growth areas such as health and software and our operations in Asia. We are focused on growing these business to scale sooner. Asia forms an integral part of our growth strategy, and Cynthia and Martijn will provide more detail on some of the initiatives that are underway to increase our presence in the region.

We've focused on offering new media content for our customers, to further differentiate our core product. From this week, our customers are able to experience Telstra TV, putting them in control of what they watch and providing them with even greater value entertainment choices in their home.

Finally, the fifth priority for 2016 is bringing to life what it means to be a world-class technology company, and when I say a technology company, I am not suggesting that we aspire to become Microsoft, IBM or Google. However, we do have a privileged position, and we do provide a window for our customers into what is possible with technology today, and more importantly, we're able to deliver that to our customers with our partners through our networks.

Ensuring we stay ahead of the technology curve will require us to continue to invest in initiatives such as our start-up accelerator program muru-D, which identifies and supports start-ups to create valuable technology products and services. Similarly, we will need to continue to invest in Telstra Ventures, which since its inception in late 2011 has invested approximately $200 million in 24 emerging technology companies from around the globe, for example, Zimperium, which offers protection for mobile devices against the next generation of advanced mobile attacks, or Whispir, which offers an enterprise-grade global messaging platform which automates communication, and Matrixx, which offers next-generation software to provide real-time analytics and billing for telcos.

Telstra Ventures' mission is to source and invest in world-class technology which is strategically relevant to Telstra. The team is based in Australia, Silicon Valley and China has reviewed more than 3000 opportunities and investments to date which gives us great insight to what is happening at a cutting edge from a technology innovation perspective.

The Gurrowa Innovation Lab which was opened in Melbourne in July is the centrepiece of our extensive innovation and technology research capabilities. We believe that in the future, research and development and innovation will not all be done within one company. It's about how we collaborate with our partners, with our suppliers, with our customers. Some of the examples of the work underway at Gurrowa include the connection to haptic robots to rural ultrasound equipment, the design of portable systems that can locate lost people in remote areas during emergency situations, and sensor applications to predict when applications or equipment and structures may fail. And our partnership with Pivotal, running agile methodologies for web and mobile application development will be important as we build our big data strategy.

So, in summary, we have a clear vision, our strategy remains unchanged. We have five clear priorities for 2016 aimed at raising the bar on the level of our aspiration.

We will cover this through in more detail in the agenda this morning and you will hear from several members of the Telstra executive team on some of these key areas of focus. And I will take you through the agenda in a moment but first I wanted to reflect on the management changes that we have implemented. As you know, we recently announced some changes to the senior executive team. In making these changes, I had 5 important objectives. One, to flatten the structure. Two, to separate out our new areas of growth to improve the level of focus on them. Three, to lift the level of significance of marketing in the organisation. Four, to bring fresh talent into the team; and, five, to improve diversity at the senior executive level.

Today we have with us representative members from the CEO leadership team being those that report directly to me. You will also hear from members of the broader Executive Committee, representing the key executives in the company. In particular you will hear from Warwick Bray, the Chief Financial Officer; Kate McKenzie, Chief Operations Officer; Karsten Wildberger, newly appointed as the Group Executive for Telstra Retail; Brendon Riley, Group Executive, Global Enterprise and Services; Cynthia Whelan, newly appointed Group Executive Telstra International and New Businesses; Martijn Blanken, Group Managing Director and Chief Customer Officer of Global Enterprise and Services; Mark Hall, Group Managing Director Finance and Deputy CFO; and finally David Burns, Group Managing Director for Global Services.

Turning to the agenda, NBN. Kate will talk about Telstra's role in the NBN under the new Definitive Agreements. Karsten will present on the role – our role as a Retail Service Provider and how we are differentiating ourselves in the market and Mark will share with you how we think about the economics of NBN for Telstra both from the perspective of the Definitive Agreements as well as Telstra as an RSP.

Warwick is then going to share with you how we are stepping up our commitment on productivity and changing how we're holding ourselves accountable for costs and productivity across the business. Warwick will also step you through the capital management framework, as I mentioned earlier, which remains a critical reference point for how we make capital allocation decisions.

Cynthia will provide an update on our Asian strategy that I first presented to the market this time last year's Investor Day. And I know that there is a lot of interest in how we are thinking about Asia which is linked to what Warwick will cover in terms of how we are thinking about capital allocation decisions, both strategically as well as financially. Focusing on Global Enterprise Services International, Martijn will discuss how we have executed against that strategy over the past 12 months. And, finally, Brendon and David, will provide insight into our Network Applications and Services business as a standalone business but also importantly as a complement to our carriage business.

They will detail our expectations of its financial performance and discuss factors that will help drive profitability including the margin analysis that we promised to provide the market earlier.

Before I hand over to our presenters, I just wanted to finish by making a few comments on the current trading environment and to reiterate what I said at the AGM about our outlook and, importantly, to reconfirm our guidance for 2016. I mentioned in my introduction that the market has become more competitive. This is best illustrated by the increase in data allowances that we have seen in both fixed broadband and mobile. On the fixed side, the last 12 months have seen all key competitors in the broadband market move to a hero above the line plan with an unlimited data claim, either as part of a bundled plan or naked offer. Operator headline prices have also been moving downward either as permanent price reductions or as tactical discounts over the same period.

While headline prices in mobiles have remained relatively stable, all operators are providing higher data allowance. On some plans, the allowances have more than tripled over the last 12 months.

As a consequence, growth in ARPU has slowed. Post paid hand held ARPU for Telstra excluding MRO in Q1 2016 was down very slightly on Q1 2015, although Q1 2015 was a very strong quarter which, in of itself, was up over $3 on Q1 2014.

ARPU in Q1 2016, on a sequential basis, was up slightly on Q4 2015.

Regarding customer additions, our fixed voice and fixed data customer additions continue previous encouraging trends. On mobile, post paid hand held net adds follows a similar trends to that which it was at this time last year. Our half year outcome on mobile will, of course, depend on our performance in the lead up to the Christmas period. And it's a period which is particularly important in pre paid handheld and pre paid mobile broadband where we are seeing significant competitor activity.

With these trends, our guidance for 2016 remains unchanged. We project mid single digit growth in total income and low single digit growth in EBITDA. Free cash flow is expected to be between $4.6 and $5.1 billion.

Capital expenditure is expected to be around 15 per cent of sales to fund the increased investment in our mobile network. Of course, guidance is based on wholesale product price stability and no impairments to investments. It excludes any proceeds from the sale of businesses, mergers and acquisitions and the purchase of spectrum. And capex to sales guidance excludes externally funded capex.

As I mentioned at the AGM, in relation to wholesale pricing there have been two decisions that have been made by the ACCC since we announced our results in August. Firstly, in relation to wholesale prices for Mobile Terminating Access Services and we estimate that the effect of this on FY16 will not be material from an EBITDA perspective but it will result in a reduction in our reported revenues of approximately $350 million. And to be clear, we had not factored that into account in our capex plans and to this extent we will not be making an adjustment to sales for the purpose of setting our capex spend for 2016.

Secondly, in relation to the Final Access Determination for Fixed Line Services, the estimated reduction is estimated to be – in reported revenue and EBITDA in FY16 of the ACCCs final access determination decision, is expected to be up to $80 million. This covers the period when the pricing takes effect from 1 November which we will shortly implement. As I said at the AGM, we are, of course, disappointed in this decision given that it does not follow the ACCCs fixed price principles which we relied on in making certain decisions for shareholders in relation to the NBN. We are continuing to consider our options, therefore, in relation to a potential appeal.

So, thank you very much for being here this morning. It's a great opportunity to share with you some thoughts on strategy, our vision and what our priorities are for 2016. And that concludes my presentation and I will now hand over to Karsten, Kate, and Mark who will make their way to their stage for the first session on NBN. So, thank you.

MS K. McKENZIE: Thanks very much, Andy and good morning, everybody. I'm Kate McKenzie and I have the great privilege to be Telstra's Chief Operations Officer. As Andy said, the NBN rollout is gaining momentum. And today I will talk to you about Telstra's role in the NBN under the definitive agreements. In addition to being a retail service provider of NBN services, which Karsten will talk about in a moment, Telstra fulfils two roles: one as an asset owner and one as a commercial supplier. Under the revised definitive agreements, our role continues as a supplier of infrastructure to NBN Co and we are focused on disconnecting existing copper and HFC broadband networks as the NBN is enabled.

Our role under the definitive agreements includes assisting NBN Co to plan and integrate the network, preparing infrastructure and assets for handover, address matching of premises prior to connection and disconnecting premises from legacy networks. The only significant difference is that under the multi-technology mix environment, we are also transferring ownership of assets to NBN Co for use in their fibre to the node and HFC multi-technology mix network deployment. The move to the multi-technology mix version of the NBN hasn't made a significant change to the nature of the infrastructure supply.

Telstra is still supplying dark fibre and exchange space to NBN Co and is still supplying capacity in our access networks. There are, of course, changes to the nature of NBN Co's requirements given the changing technology. And as part of the revised definitive agreements, both companies took advantage of the previous years of experience to put forward some changes to simplify operations. However, there is no net value impact as a result of those changes.

There is slightly more impact under the remainder of the definitive agreement. Telstra continues to have the obligations to disconnect all premises in the NBN footprint on the same terms as under the fibre to the premise arrangement. However, given that assets are transferring to NBN Co prior to ready for service, Telstra will be seeking access back to those assets for that transitional period. That's necessitated in order to continue to provide service to our customers. This has introduced a little more complexity in terms of the management of that transition. Telstra also performs work under commercial arrangements to assist NBN Co to plan, design and construct their multi-technology mix network. We have a proven track record with quality planning and design services completed for NBN Co, such as for the thousand node trial.

From December 2014, we built on that to provide a large portion of NBN Co's FTTN planning and design work. We've put in place an interim maintenance agreement to support NBN Co whilst it also looks at long-term operations and maintenance options. And we are also participating in the process to bid for that work. We continue to explore a range of commercial support options with NBN Co under the multi-technology mix, including at this point discussions around how we may be able to support NBN Co's HFC deployment. We remain ready to support NBN Co in other areas where it's commercially sensible for both us and them.

As you would be aware, NBN Co released their three year rollout plan a couple of weeks ago. In terms of the FY16 numbers, they are quite similar to our view. The plan does bring forward the rollout in FY17 and 18, as Andy mentioned. With regards to NBN Co's recently released Nine Quarter plan, we're still working through with NBN Co the details around the later years of the plan. Our focus is working with NBN Co to now understand the nature and timing of the various tasks and to address the challenges that it presents. We do expect, however, the NBN Co will provide connections for each and every premise in Australia given that our obligations are to disconnect all premises connected by Telstra's copper and HFC broadband network. Karsten will speak further on our approach as a retail service provider and our strategy to win and retain retail customers.

However, from an operations perspective, there are two key differences for us under the multi-technology mix. The multi-technology mix means that there is a transfer of assets to NBN Co, which is a shift for Telstra. It also means that NBN Co and its contractors are likely to be working on Telstra's live network and we need to manage the complexity of the asset transfer process and continue our focus on the end customer as the transition occurs. At this stage, only three service area modules have been transferred so there is much more work to do. We are working closely with NBN Co to make sure that there is a clear end to end view of the process and the view on the NBN's deployment scale target. The multi-technology mix doesn't change the fact that all customers need to migrate to the NBN and that the same overarching timeframe applies.

Of course, this does mean the access types will be determined area by area by NBN Co. Regardless of the access technology used, whether that's fibre to the premise, fibre to the node, fibre to the building or HFC, we expect to migrate and disconnect our copper and HFC broadband networks in that area over the 18 month period from when NBN Co declares a region ready for service. As part of the definitive agreements, both parties agreed that NBN Co will take the network assets "as is where is" and this is consistent with NBN Co making all of the technology and design decisions ahead of time based on the assets that they are taking.

They also have the option of doing work ahead of time on those networks. So it's NBN that can make a decision as to what they want to do with the existing network. Whether they want to use it, remediate it, design around it or use an alternative technology and when they are going to do each or all of those things.

As we've now already demonstrated in a handful of areas, we are transferring the relevant copper and in the future HFC access network assets to NBN Co just ahead of NBN Co declaring a region ready for service. And at that point, all of those assets become NBN Co's to operate and maintain.

So just to summarise, in addition to being a retail service provider of NBN services, Telstra fulfils two roles: one as an asset owner and one as a commercial supplier. Under the revised definitive agreements, our role continues to be suppliers of infrastructure to NBN Co and to disconnect existing copper and HFC broadband networks as the NBN is enabled. Telstra also performs work under commercial arrangements to assist NBN Co to plan, design and construct their multi-technology mix network. And we continue to explore a range of commercial support options with NBN Co.

NBN Co's rollout plan, in terms of the FY16 numbers, is in line with our view. From an operations perspective, there are two key differences for us under the multi-technology mix. We will transfer assets to NBN Co and we will have third parties employed by NBN Co working on our live network. This does, as I said, introduce some complexities as we manage the assets transfer process and continue to focus on the end customer. The multi-technology mix doesn't change the fact that all customers need to migrate to the NBN and that the save overarching timeframe applies.

Regardless of the access technology used, we expect to migrate and disconnect our copper and HFC broadband network in those areas over the 18 month period from when NBN Co declares a region ready for service. As part of the definitive agreements, both parties agree that NBN Co will take the network "as is where is" and this is consistent with NBN Co making all of the technology and design decisions ahead of time based on the assets that they are taking. And with that, I will hand over to Karsten Wildberger, who will present on our role as a retail service provider and how we intend to differentiate ourselves in the market. Thank you.

MR K. WILDBERGER: Good morning. My name is Karsten Wildberger. I am the group executive, Telstra Retail. And today I would like to outline our current market position as the leading NBN retailer, explain our differentiation strategy, talk about how we are improving customer experience and give you some insight into how we are improving the cost to connect the customer. In the last year, we have grown our market share in fixed broadband. And today, we are also the leading service provider on the NBN with around 50 per cent market share. Our fixed business continues to deliver strong financial returns for Telstra. And the NBN represents a significant structural shift for fixed line business. But we continue to see attractive growth opportunities in our fixed portfolio.

So we expect Australian fixed broadband market penetration to significantly increase towards 80 per cent by 2020, up from about 63 per cent today. And here are some of the reasons why.

Australia's embracing streaming video on demand and we are just at the beginning of this phenomenon. Streaming video services like Presto, Netflix and Stan are introducing premium content to a new audience. We have great media partnerships, compelling sport content and leading video distribution technologies to help our customers get the most out of on demand entertainment. Secondly, as the number of things that are connected through the internet grows so to do the range of services we can offer in the home. We know Australians want to do things like minimise their power bills, keep tabs on their property when they're away and stay longer in their homes when they retire. We see a new wave of potential revenue growth coming from the creation of smart home applications that meet these needs. The typical home is said to run at least 30 connected gadgets by 2020.

We see also very strong demand for fixed services in the business space. Small businesses increasingly want an online presence. Many are seeking end-to-end online sales capabilities and interest in cloud software is growing in step with business owner confidence in the quality of their broadband connection. We estimate that 80 per cent of small business will have a web presence in 2020 up from 58 per cent today. The current penetration of integrated e-commerce tools will rise to around 25 per cent from the current base of around one per cent. We are bringing together partners in investment to create simple integrated solutions. The market for these services is currently fragmented and we think we have the technology, relationships and distribution capabilities to lead the market and help Australian business compete on the world stage.

Let me now talk a bit about our NBN strategy. Telstra is best positioned to help Australian homes and businesses get the most out of the NBN and we are determined to be the provider of choice. It is a position we have fought hard for and one which we do not take for granted. Our strategy is to set our service apart by three things: firstly, by offering the best NBN connection and network experience end-to-end; secondly, by creating "only with Telstra" product media experiences; and thirdly, by creating offers tailored to the needs of customer segments pitched in the channels and place that suit them.

Let me now unpack these elements a bit more for you. Let me first talk about offering the best connection and network experience. Not all NBN services are created equal. Many aspects of the NBN experience are managed by the RFP, and they can make the difference between clear and pixelated videos, business application availability and even the location customers can access the network.

With NBN we give our customers the best in home connectivity with our NBN Wi-Fi gateway. The gateway comes with the latest AC technology for higher speeds and great coverage. The technology supports HD video streaming and helps address home Wi-Fi frustration such as dropped connections. We also offer higher download and upload speeds on our entry level bundle plan than other providers.

We make the connection safer with Telstra Broadband Protect. It blocks websites hosting known viruses, malicious content and scams which might try to steal or use your personal information. It also allows parents to set time of day limits on the internet so kids can have distraction free homework periods and internet free bedtime.

And we make it easier for customers to connect new technology to the NBN with our Telstra Platinum service. The Telstra Platinum team can take care of setting up a customer's home technology from installing their broadband and phone, configuring their Wi-Fi and setting up all their devices. Plus, customers can subscribe to receive ongoing expert advice over the phone, in store or online.

Let me talk about the second point about the product and media experiences unique to Telstra. To set ourselves apart further we are creating product experiences Australians can only get with Telstra. These experiences are increasing demand for broadband, stimulating broadband adoption amongst voice only customers and providing us with a platform to win back customers. Telstra Air is a prime example. For the first time Australians can take their home broadband data with them to thousands of places across Australia and more than 17 million hotspots across the world. It's a powerful proposition and it's helped boost NBN bundle sales. NBN customers already account for more than 20 per cent of our member base on Telstra Air. Our T-voice app allows a whole family to make and receive high quality home phone calls from their preferred device, including mobiles and tablets.

Another experience unique to Telstra is Telstra TV. More than one third of all TV viewing globally has now moved online. The spread of high quality broadband is set to support the growth trend creating further opportunities for Telstra to be aggregator of the best content. Our recently launched Telstra TV compliments our leading Foxtel from Telstra packages. It brings together the best streaming TV services on the market and allows our customers to access their favourite TV series, movies and content direct to their television. And this is only the beginning of a broad portfolio of "better with Telstra" content experience in the pipeline.

From a business perspective we are creating industry solutions, managed network services, cloud and collaboration services to take advantage of the improved network quality available with the NBN rollout. Six in 10 small business customers moving to the NBN with Telstra are taking up our Digital Office Technology bundle. In addition to bringing together fixed voice, internet and mobile in a single package, DOT represents an important first step for businesses moving their operations into the cloud. It gives customers clever core routing, remote working and message taking technology all configured in the cloud and controlled from a PC, tablet or smartphone screen.

Now, let me briefly talk about the third point how we create offers that match the need of customers. Unlike other providers who go to market with one size fits all plans we are creating offers that match customer segment needs with specific inclusion and product features. For example, for a limited time our new NBN customers receive double their data allowance on selected plans. We are also using our challenger brand Belong to satisfy customers who simply want a great voice and broadband experience. Already, Belong accounts for five per cent of our NBN base.

And let me now talk about boosting customer experience. We have embarked on a program to further improve the connection experience for customers who can find the transition to the NBN complex. This includes preparing our customers for the NBN long before the network arrives. We put them on our best plan with our leading gateway, connect them to more with Telstra Air and prepare them for a seamless move to the NBN when it arrives with a choice of installation options. This is an upfront investment to win customers and ensure they have a hassle-free switch to the new network.

Our program will also see us build out our digital sales and self-service functionality to establish online as the preferred point of contact for our customers. It will see us increase automation to speed up interaction and simplify processes for our staff. And it will involve us winding back the network management activities associated with marinating the copper network. Importantly, this transformation will also support a lower cost operating model and ensure that we deliver sustained profitability in the longer term.

In summary, we are enthusiastic about the potential of the fixed broadband category and the new growth opportunities that will emerge both in our consumer and business segments. We have a strategy to differentiate based on network quality, unique product and content experience that are better with Telstra and to pursue growth. We are engaging our customers early with segmented offers and personalised marketing. And we are making the connection experience easy for our customers, which will also support a lower cost operating model.

Thank you. And now I would like to introduce Mark Hall, who will speak to the economics of the NBN. Mark.

MR M. HALL: Thank you, Karsten. Good morning. My name is Mark Hall. I'm the Deputy Chief Financial Officer and the General Managing Director of Finance.

The key areas that I will focus on today are the economics of the NBN for Telstra. As you would expect, the NBN rollout has a significant impact on the financials for Telstra, but our aim is to achieve the best possible outcome for our customers and our shareholders. The areas that I will focus on today are the definitive agreement receipts and how the NBN rollout creates change to Telstra's wireline environment. We know that the NBN rollout will change our wireline economics. The rollout also triggers the NBN definitive agreement receipts.

For us, the NBN rollout will have two main impacts. Firstly, as the NBN network is rolled out, we will receive both ongoing and non-recurrent income from NBN Co and the Commonwealth. I'll cover that in some more detail shortly. The second important impact is, as Karsten has explained, that Telstra now becomes a retail service provider in the NBN wireline market. Of course, what is different as a result is our wireline margins will reduce as customers migrate to the NBN.

As mentioned previously, we will receive both ongoing and non-recurrent income from NBN Co and the Commonwealth. In terms of non-recurrent receipts from NBN Co, as a part of the revised definitive agreements, Telstra receives income for the disconnection of active services. This is called the PSAA, or Per Subscriber Address Amount, and is reflected in other income in our P&L. In FY15, the PSAA received by Telstra was $163 million. This will increase substantially as the NBN rollout gains momentum.

Telstra also receives income for the transfer of copper and HFC assets, known as the infrastructure ownership receipts, from NBN Co, of course, over the course of the rollout. This is also reflected in our other income in our P&L.

These were previously known as LIC payments, or lead in conduit payments, under the original NBN definitive agreement.

Asset transfers over the NBN rollout will occur shortly before NBN Co declares each of their rollout regions as ready for service. Both PSAA and infrastructure ownership payments are expected to cease in 2020 in line with the NBN rollout. These represent approximately $4 billion of the overall $11 billion post tax NPV as at June 2010 as negotiated with NBN Co and the Commonwealth. In terms of ongoing income from NBN Co and the Commonwealth, there are two main areas.

With NBN Co, we have what we now call infrastructure access receipts. This income is for duct and pit rental. This payment stream will grow over the life of the NBN rollout and then continue forward for the life of the contract. Infrastructure access receipts were previously calculated by measuring duct kilometres. Now they are measured based on NBN premises passed. We also have NBN Co receipts for Telstra's rack spaces and exchanges and dark fibre backhaul. These ongoing income streams are reflected in sales income and represents approximately $5 billion of the overall $11 billion post-tax NPV at June 2010 as negotiated with NBN Co and the Commonwealth.

Commonwealth agreement receipts as part of the Telstra USO performance agreement, which was formerly known as the TUSMA Agreement, will be ongoing under this contract. This is reflected in other income. The purpose of these receipts is to reimburse Telstra for the cost of providing the USO 20 year contract, including payphones, emergency 000 and the standard telephone service. These USO receipts form part of the $2 billion of the $11 billion post-tax NPV as at June 2010 as negotiated with NBN Co and the Commonwealth.

As we have just heard, the migration to NBN represents a structural shift for our fixed line business as we transition from a network operator to a fixed line reseller. These impacts will mainly be to sales revenue, directly variable and network costs. We expect that there will be more bundling of voice and broadband, and more offerings on speed, data and content differentiation. The move from our fixed business to an NBN reseller presents us with cost challenges and opportunities. Like the rest of the industry, we'll pay NBN access fees and absorb the costs of transitioning our customers to the NBN network.

Our key opportunities here relate to the cost to connect and the cost to serve customers. For cost to connect, we are focused on field installation, back-of-house-order-to-activation processes and contact centre acquisition activities. Moving to digital sales is core to our approach and a key driver to reducing costs across the business. For ongoing cost to serve, we are focused on further streamlining and digitisation of our processes. As we transition our fixed line services to NBN, we will have the opportunity to reduce operating costs and capital requirements for our copper and HFC networks. This will happen in line with the NBN rollout once it is substantially progressed. We are focused on reducing these costs and they will be monitored closely. I will now pass to our CFO, Warwick Bray.

MR W. BRAY: Thank you, Mark, and good morning. This part of the presentation will cover, firstly, an update on productivity and, secondly, our capital management framework.

On productivity, I will give some detail on our track record on delivering productivity and our commitment to increased productivity. Secondly, our commitment to measuring productivity against costs reported in the financial accounts and, thirdly, our commitment to providing greater identification of net cost growth, productivity and re-investment across three cost categories. Finally, how we will deliver increased productivity and better customer outcomes through digitisation, simplification and getting our processes right the first time even more of the time.

Let me start by highlighting that productivity is just as important in the future as it has been in the past. Over the past few years, we have achieved approximately $1 billion in gross productivity improvements annually. Around 500 to $550 million annually of this has been achieved through reduced expenses.

We are now entering a period of increased competition for our mobile and fixed broadband businesses. As part of our response to meet this competitive challenge, we need to ensure that our productivity efforts translated into reported cost improvements in the financial accounts at the same time as we raise our productivity targets.

Andy outlined in his presentation today that productivity is a key priority for this financial year and beyond. To reiterate on some of Andy’s earlier messages, we need to move faster and untangle complexity in our business, we need to simply our processes and systems to unlock better outcomes for our people, our customers and for our shareholders.

We are changing how we hold ourselves accountable for costs and productivity across the business by targeting increased productivity and shifting focus from gross productivity to managing underlying cost outcomes; that is, productivity that you can see in our reported accounts.

Although cost-out will be our primary focus and primary measure. We will also continue to pursue $1 billion of annual growth productivity to maintain delivery of other productivity, such as incremental revenue, avoided costs, capex and cash benefits. To manage underlying cost outcomes, we’re breaking our costs into three categories and we will manage each cost category against a specific target. These three identified cost categories are consistent with our full year FY15 cost disclosures. I will go through each of them in turn and then our targets on the next slide.

Firstly, core directly variable costs or DVCs. Our core business includes costs supporting fixed, mobiles, network applications and services, or NAS, data and IP and media products. Our core DVCs are directly associated with, and vary with, those revenue streams. The costs totalled $6.4 billion in FY15.

Now, included in there are mobile cost of goods sold, such as handsets, and network payments, NAS cost of goods sold and service fees to Foxtel for our Foxtel from Telstra offering as examples.

The second category of costs are core non-DVCs. These are our largest category of costs and include recurring expenses for operating our core business that are largely independent of scale. These costs totalled $8 billion in FY15. However, they do also include some expenses that do scale with revenue. For instance, labour costs associated with NAS, NBN commercial works and the NBN Definitive Agreements.

The last category of costs are new business and corporate costs. These costs totalled $1.5 billion in FY15. This category includes, firstly, new business costs incurred by International, including Autohome and Pacnet, GES International, Health and the Telstra Software Group. Secondly, M&A and, finally, some corporate impacts including, for example, bond rate movements.

So, how will we measure productivity? For each of the three identified cost categories, we will measure them differently against their own targets. Our productivity aspiration will be measured in a different way. And we will aim to achieve productivity based on changes in costs in our financial accounts rather than the concept of gross productivity.

We will measure this way internally and report this way externally. Our new approach is better for investors because we are more tightly controlling reinvestment.

For our first category of costs – core DVCs – we will provide more commentary externally on the efficiency of our costs here. With these costs, we are less concerned with their growth, but we are very concerned about their efficiency. This means that these costs should be directly matched with revenue or there should be a strong link to business growth. For instance, costs linked to increased hardware or services revenue. We will also seek a decline in unit costs, for example, through improved purchasing.

For our second and largest category of costs – core non DVCs – our target is a net cost reduction year-on-year. This means we are targeting productivity gains to more than offset inflation, wages and volume growth. We will, however, make adjustments for significant deals and events that have a large impact on these costs. For example, increased NBN commercial works; increased NAS labour on large, new contracts; and increased NBN migration.

For our third category of costs – new business costs, M&A and corporate – we will assess M&A and new business costs against their original business case. Growth in these costs is an investment decision for each portfolio.

We are clearly focussed here on revenue growth for the time being but our cost management focus will increase for these businesses over time. And furthermore, as these businesses mature, some of them may be moved into the core.

Let me now move onto how we will deliver productivity. We've implemented a new productivity approach where accountability and incentives for execution and cost management have been devolved to business units and line managers. Productivity is now built into business cost targets across the CEO Leadership Team. Finance will measure and report productivity outcomes, and a small central productivity team influences the shape and targets of our productivity program.

Our productivity program is structured around six themes, starting from the top of the slide and working clockwise. Firstly, improving customer interactions through digitisation and simplifications. This includes eliminating bad volumes, increasing automation, reducing process complexity to deliver customer outcomes right first time – even more over time – and increasing the number of transactions that are digital. Removing complexity and reducing the time and effort required for our employees to serve our customers, and for our customers to achieve the outcomes they want, will improve customer advocacy, improve our employee experience and lower our operating expenses.

More specifically, with regards to getting it right for the customer first time, more often, we are providing our front line sales staff with service diagnostic capabilities for ADSL and PSTN customers. These capabilities will be used at the time of the customer order and will result in improved accuracy of orders and subsequent automation, enabling upfront identification of the required level of manual work later on, including truck rolls from an exchange, and the removal of issues that may cause delays and rework. Today these tests are carried out after the order has been taken. By performing these diagnostics at the time of the customer order, we will significantly reduce errors and increase our speed to activation. Improvements in assurance are also important.

We're continuing to digitise more service transactions with our mobile and on-line based channels. Overall, we receive approximately 7 million assurance calls per year for ADSL, cable, NBN, PSTN and business broadband products. If given a choice, 75 per cent of these customers would rather go online and self-serve to resolve their problem. This represents an opportunity for our customers, and for us, to reduce call volumes into our assurance contact centres. Specific examples of initiatives that reduce call volumes include extending our self-care capabilities for our ADSL customers, via our 24/7 app, and the Telstra Broadband Assistant application for our cable, NBN and PSTN customers.

This application is a desktop software application that sits in the background with the ability to help detect, diagnose and proactively let customers know when there's a problem with their service. It then provides step by step instructions to fix that. Furthermore, we are also improving our diagnostic self-care capability in our online applications, so that up to 50 per cent of problem types can be resolved by users, resulting in fewer assurance calls and fewer truck rolls. With regards to NBN activation, today our NBN order to activate process is relatively manual compared to our established fixed voice and broadband products. However, our NBN order volumes are growing fast as we work hard to win NBN customers and the NBN footprint continues to grow.

This year, we're increasing automation of our NBN activation process, reducing the time to a working service, while reducing the customer and employee effort required to achieve a market leading NBN experience. Our second productivity theme is product and sales optimisation. This includes simplifying our customer product offers, improving sales execution, and increasing the proportion of sales through digital channels to deliver both customer and productivity benefits. We're continuing to simplify and digitise our product offerings. This is targeted at improving the customer experience and reducing calls to our contact centres. For example, through increased automation we're simplifying the experience for our International Roaming customers using our Travel Pass product.

The simplified product structure – including unlimited calls, unlimited SMSs and a data allowance per day when roaming in 41 countries – combined with automatic self-care functions from your mobile phone, will significantly reduce international roaming calls to our contact centres. Secondly, we've recently launched block charging capabilities for high data users, with automated real time data usage meters and alerts. This notification capability, combined with digital activation capability for additional data packs via our 24/7 app or SMS, removes the need for customers to call our contact centres. Continuing our focus on digitisation, in FY16 we are also expanding the use of digital signatures and digital document delivery within our sales and contracting interactions with business and enterprise customers.

An FY15 pilot for our Telstra Business customers demonstrated an up to 95 per cent reduction in errors, and a 70 to 90 per cent reduction in document turnaround times as a result of this capability. These reductions greatly improved our contracting productivity. Additionally, we continue to improve productivity through our platform and product rationalisation. Our focus continues to be on removing legacy platforms and products. Examples of this include legacy dial-up services and 2G network platforms. Our third productivity theme is enabling the future IT network. We will adopt new technologies within our network and IT applications which will enable further automation and streamlining of our processes, and lowering of our costs.

Through increased automation across our platforms, we are enabling improvements in our core processes, including across our end to end activation processes. As described previously, NBN activation is a particular focus and our IT focus in this area is a key enabler of reducing NBN activation costs. Additionally, we're adopting new technologies to simplify our IT environment. For example, our increased use of cloud and modular API enabled IT services are supporting shorter development cycle times and lowering complexity in our IT environment.

These improvements are currently enabling the increase in digital sales and service transactions mentioned previously. They also lower our overall cost to deliver a change in our IT environment. We continue to simplify both our IT and core network through platform and application rationalisation. A large number of our IT applications are targeted for reduction in line with our IT strategy. We continue to target rationalisation of our legacy network platforms as well and take advantage of cost reductions through the introduction of new technologies. For example, using software defined networks which will help us realise cost reductions from power savings and reductions in the required physical space in our exchanges.

Furthermore, within our core network, we are enabling productivity and improved customer experience through increased automated monitoring and analytics. For example, we are building capabilities in our network to detect and resolve problems even more proactively. This capability will remove avoidable events in our business by fixing issues before customers are impacted. Additionally, our predictive network data analytics capabilities will enable us to remove work effort by reducing our line failure rates, and corresponding truck rolls, through a proactive target of areas of higher line failure. Our fourth productivity theme is being a fitter and faster organisation.

This includes streamlining of our structures to create a simpler and more effective organisation. Our environment, enabled by technology, continues to change at an accelerating rate. Not only does this present new business opportunities; to continue as a market leader, we need to make decisions and deliver better customer outcomes, quicker and more efficiently. We will continue to simplify our organisational matrix and make appropriate changes to improve work efficiency, accountability, increase the speed of decision-making, and reduce duplication. We will continue to embed digital capabilities and ways of working into our internal processes, for example, digitising our procurement approvals process is resulting in a 50 per cent reduction in cycle time for up to 85 per cent of our approval volumes. Our fifth productivity theme is supplier partnerships for business outcomes.

This includes working with our partners to reduce rework and bad volumes. In particular, we are working with our partners to improve our end to end workflow for our activation episodes, through increasing automation and reducing errors. Additionally, we will continue to consolidate suppliers. For instance, within our enterprise business, our top 20 suppliers account for approximately 60 per cent of our supplier spend. The rest of our spend is spread across a long tail of vendors. We are focussed on reducing the size of the tail in order to reduce costs and improve outcomes with scale. Our last productivity theme is reducing synergies from acquisitions. This includes optimising the performance and synergies of our new businesses. Specifically, in the short term, this includes realising the previously announced $65 million of synergies from our Pacnet acquisition.

Martijn will discuss our progress against these synergies later in today’s presentations. To summarise, we are making a number of commitments on productivity. Firstly, we are committed to delivering increased productivity and productivity that you can see in our financial accounts. Secondly, we are committed to providing greater identification of net cost growth, productivity and reinvestment in future external results announcements. That is: we will report our productivity externally against our three identified cost categories, we will provide more commentary on the efficiency of our DVC spend and we will target a net cost reduction in our core non-DVCs after adjustment for significant deals and events. Finally, we have set ourselves up to deliver on our productivity commitments with a decentralised operating model structured around six productivity themes. Digitisation, simplification and getting our processes right first time – even more of the time – will lead to increased productivity and better customer outcomes.

That is now the end of the productivity session, I will turn now to our capital management framework. You would all be familiar with our capital management strategy, which has been in place since 2012. It’s underpinned by a clear focus on optimising for maximising our returns to shareholders, through both dividends and capital growth, maintaining our financial strength and retaining financial flexibility. These core objectives are supported by five principles that provide the structure and definition for what this means at a practical level. Whilst there is no change to this framework or principles, it is an important time to reflect upon them given the challenges and opportunities of the NBN, investment opportunities and competition.

The principles are: firstly, maintaining balance sheet settings consistent with a single A credit rating. This strong rating is important for us as a frequent issuer of debt in international markets. Secondly, our longer term objective is to grow dividends over time based on growth in sustainable earnings and to ensure those dividends are fully franked. Our dividend policy remains unchanged and future dividends will be subject to the board's normal semi-annual approval process. This remains our key priority. Over the next five years, it is important we grow our business and increase productivity so that we can more than offset the financial impacts of the NBN and, therefore, grow sustainable earnings.

Thirdly, excluding spectrum payments which we will fund via debt and cash reserves, our target medium capex to sales ratio is 14 per cent. As previously announced, over the next two years that ratio will be 15 per cent as we see an opportunity to consolidate our leadership in mobile. Fourthly, over the course of a year, we will not borrow to either pay the dividend or to fund capital returns. And, fifthly, we will retain the financial flexibility for portfolio management and to make strategic investments where our target hurdles rates can be achieved.

I will expand upon that last point in more detail now. So as regards our investment criteria and target hurdle rate, as we have previously advised, our guideline M&A criteria are: to be earnings per share accretive in year two, to have a return on investment above our weighted average cost of capital by year three and any acquisition needs to be more value accretive than a share buyback of a similar magnitude. From time to time, there may be acquisitions for special capability where we may make an exception to these criteria, such as Ooyala. We wouldn't expect these exceptions to be a significant part of our overall investment.

Turning to organic investments: these include investments in our capital programme – our annual capital program – and also start up investments such as Belong or the investment in the Philippines were we to pursue that opportunity. Our criteria here also remained unchanged but we're making them more clear, externally, today. Our criteria for organic investments are a NPV that is positive, using a weighted average cost of capital plus an appropriate risk margin. Clearly, with these investments, we would prefer those that achieve positive cash flow early. Some investments, however, by their nature won't fit into the early cash flow category. In closing this session, we reaffirm our commitment to our Capital Management Strategic Framework and our Capital Management Principles. We have a clear commitment to delivering shareholder value via growth in fully franked dividends over time based on growth in earnings per share on a sustainable basis. This remains our key priority.

In order to invest in the future and thereby lay the foundation for stronger, more sustainable and more stable shareholder returns – and as part of our broader growth strategy – we will continue to invest organically in the core, pursue external opportunities where our existing investment guidelines are met, consider selective longer term strategic investments and undertake a measured approach to capital management. In relation to our capital management alternatives, our preference is to participate in options that involve the distribution of available franking credits and, where possible, those options that provide an enduring EPS benefit to our entire shareholder base – such as off market buybacks.

Thank you. I will now invite Andy, Karsten, Kate and Mark to join me back on the stage and we will open up to questions from the floor on those first three sessions today.

MR KOPANIDIS: I see some familiar faces at the microphone. I wouldn't be doing my job if I didn't give a plug to the IR app, so make sure on your tablets you download the app. It's a – you can sort of spend hours and hours on it. It's great fun. So you look lonely there, Justin, why don't you kick off?

MR DIDDAMS: Thank you, Peter. Thanks very much for all the update on NBN and, you know, there's lots of good detail in there, just a lack of numbers around a lot of those NBN and I don't want to put you on the spot and ask for you to give us a margin for that fixed line business in a decade, but I guess the number you must be aware of is the cost to serve all of the infrastructure you will be selling to NBN Co, because that will be a pretty critical number in working out what the cost base looks like in a full NBN world. So I was wondering if you could give us a bit of colour on what it costs, in terms of opex and capex, to maintain that last mile of copper and HFC.

MR PENN: Thanks, Justin. So you don't mean the long-term infrastructure access agreements? You mean basically the last mile we were handing over?

MR DIDDAMS: Yes. The costs that you will be offloading to NBN Co.

MR PENN: Well, obviously, they – as you say, they fall into two categories. There's a capex component we're investing in and the operating costs. I mean, historically, you know, we shared with the market, from a capex perspective low hundreds of millions. From an opex perspective, I don't think we've actually disclosed what it costs. I mean, we've sort of talked in the past about a long-term reseller EBITDA margin, you know, around about 20 per cent from where it is today, which is sort of in the 50 per cent-ish or depending on whether it be voice or fixed broadband. I mean, I think, to be honest, the whole market has got a long way to play out before I could provide any more colour on that. But, as you know, we do have a clear program to, particularly at the moment, get our costs to activation down, which is actually working with NBN to approve the sort of processes between ourselves and them and how we service customers. But I'm not sure if anybody can add any more colour than that at this stage.

MR DIDDAMS: Would it be fair to say then if we get to 80 per cent broadband penetration and you're able to retain your market share, the 25 per cent margins are based on those core assumptions? Is that fair?

MR PENN: Look, I don't know, Justin. I mean, I think the reality is we're going to have to – you know, that it's as much to do with the market dynamics as is it to do with us. I just think we have to see how that plays out.

MR DIDDAMS: Okay. Thank you.

MR CHOPRA: I had two questions. The first one's just around the costs. It's really good to see the focus on net costs, and I was just wondering, you know, as you look out into financial year '16 – because you're saying you'll get a net cost reduction, plus you add in Pacnet – can you still expect a flattish cost outcome in – you know, with that sort of cost trajectory, why is the EBITDA guidance sort of low single digits when revenues are growing mid single digits? Are there any sort of one-off costs that we should take into account? So that's the first one, and then the second question is just around the national broadband network, Karsten, you know which way would you sort of swing between margins and net ads? Would you be willing to sacrifice margins to keep growing the customer base? I'm just trying to get where your headspace is at on that.

MR BRAY: So if we take the costs, the commitment was over time that the core non-DVC costs would come down in absolute terms. In terms of our overall cost structure, you should expect the third category, which is the growth businesses, you should expect increased growth there. Also, as you point out, we'll have a year of Pacnet costs in 2016, when we only had two and a half months in 2015, and on DVCs, you should expect those to grow.

MR WILDBERGER: Just a comment on net growth, market momentum versus EBITDA. It's not always an either/or. It can also be an and, because, as I tried to point out, for us it's very important the quality, the differentiation. We're very successful in our bundle sales entertainment packages. So we watched it, of course, very, very clearly, and trying also to find there the right balance to, of course, on the one hand satisfy our high aspirations on market share, but equally absolutely focused on EBITDA, and I don't think that we feel, at this stage, that this is a black and white question, as I've tried to point out, because it very much moves around differentiation.

MR CHOPRA: The first couple of years, the focus is on market share?

MR PENN: Well, I think the point – they're sort of interrelated, in the sense that, you know, it's important that we get a scale because that ultimately is going to be an important dynamic in the overall economics, but I still think it's relatively early days in terms of how the competitive dynamics are going to play out.

MR WILDBERGER: I mean, the NBN – I mean, if you look – when we go into the area very early, as I tried to point out, of course, we also utilise all our very strong channels. We have a very strong regional presence. So this all plays out. It's not just all, say, in the offer and the price, if you like. So I think we have managed, to date, very, very well the right balance, and we are confident that we can sustain that, but obviously we watch the market very, very carefully and make sure we will also gain our fair share and deliver against our margin objective.

MR PENN: And I'd add, I think, as well, Karsten, I think the opportunity for EBITDA performance is actually more to do with the cost of activation, cost to serve side, rather than, I guess, in responding to the competitive dynamic. So it is important that we get scale. It is important, as you heard from Karsten and from Warwick, that we get the costs to serve down, get the costs to acquire down as it scales up.

MR MARTIN: Just a couple of questions around the guidance for this year and the impact of the ACCC FAD decision. $80 million this year, probably not dissimilar next year, given a full-year effect versus the run-off in fixed-line customers. After that, if the NBN's on track, that impact runs down pretty quickly, doesn't it? Have you got a view on what the aggregate impact might be over a four or five year period, and is there a material offset in that, for a large number of customers and ISPs that might be more inclined to keep customers on the copper network for longer? Secondly, you haven't changed your guidance despite that $80 million. I can see why $80 million might be, you know, within the range of guidance, but the effect on dividends is much more direct, isn't it? $80 million, half a cent in dividends, so those that might have been expecting an increase in dividend at the half year – take that out of the equation now? Is that fair?

MR PENN: Look, well thanks, Ian. The – just, I mean, on the guidance point, I mean, what we've said is that, you know, we set guidance independent of those things, and those things come along, so you have to factor those in yourself in terms of how they impact guidance, but as you say, it's $80 million, and it's not material at that level, but it's a really important point, because effectively what's happened is that the costs that Telstra incurs for providing the infrastructure services to all access seekers, which ordinarily we would be able to recover from all of those access seekers. By virtue of this decision, we're not able to fully recover them, and the effect of that is what we've shared, and to your point, the pricing effect is from the 1 November. You have to sort of formulate your own point of view about the timing of the rollout and the puts and takes of the lower price relative to the lower scale to which we're servicing, which will affect how much – so my point is, sorry, that I think you're –you need to make your own estimate in terms of what that means over the period of the price for which is basically four years, and that's going to be a function, as you say, of the rollout of NBN.

In terms of dividend, I think all I'd really do is point you back to what Warwick said in terms of how the board makes that decision. The board's really sort of making a decision about, "Well, what's long term – what do we believe long-term sustainable earnings are", and looks out to that to make the dividend decisions, and then, of course, short-term fluctuations in earnings are important, but it's more of a long-term point as opposed to an algorithmic reaction to the ups and down of short-term sort of dynamics.

MR BRAY: That's good.

MR MARTIN: Thank you.

MR R. TONG: Raymond Tong from Goldman Sachs. Just in terms of the NBN DAs, at the time you announced $11 billion a few years ago, you also talked about around about $2 billion of capex and opex to get that, you need to invest. Now, I was just wondering how you guys are, I suppose, tracking towards that, just given – it seems like, anyway, that the cost to serve, cost to migrate is probably a little bit higher than what you thought – initially thought.

MR HALL: Just in terms of the overall $2 billion, broadly consistent with what we thought. Yes, some of the costs are higher early, but we've got good plans to get them down under control very quickly. So nothing material against the overall $2 billion we estimated back then.

MR TONG: Right. And I suppose moving to the MTM mix going forward, does that, sort of, materially affect the cost of migrate, cost to serve, as you move to that kind of model?

MR PENN: Probably that's one for Kate.

MS McKENZIE: I guess what I would say is we've had to, sort of, reconsider the processes, because processes that are designed for FTTP are different to the processes that we've had to design now for both FTTN and HFC. We're always looking at those things with a lens to digitising, automating and making it simpler. The fact that you've got different access types maybe makes that a little bit more challenging, but, you know, we're all over it and to the extent that we can simplify those processes, it shouldn't make a material difference.

MR PENN: Yeah. I mean, you had an example, Kate, in your talk, which was really about we have to sort of cut over to NBN, and then we have to bring it back again and – so that's an example of the complexity, and I'm not sure, in the great scheme of things, it's that material, but there is a little bit of increased complexity.

MS McKENZIE: That's right. But I guess I would say, the working relationship with NBN on those things is very good. We've got a joint operations centre set up, and, we've put an enormous amount of time and energy into mapping out the most efficient and simplest way of, sort of, managing all of those processes. So we'll just keep doing that, and, hopefully over time as we scale, we'll get ahead of that.

MR TONG: And just a further question maybe for Warwick on ARPU. You talked about, Andy, that ARPUs are down slightly in the first quarter, but up sequentially. So I think looking forward, do you think you're through the worst in terms of the impact of the excess data compression and, sort of, are you confident that you're sort of through the sequential declines?

MR PENN: Look, I think all I'm really trying to do is – I mean, it's obviously a more competitive environment, you know that. We all see that. We see increasing data allowances going into mobiles, although, as I mentioned, I mean, the actual sort of headline price, if you like, of mobiles has remained relatively stable, it's just more this dynamic of increasing data allowances and that's reducing our data packs and revenue from data charges. And we're just trying to provide a bit of colour as I say it is down marginally – very marginally, frankly, sort of broadly flat but down a little bit on the first quarter of this time last year and then subsequently on Q4 of 2015. So how that sort of rolls forward in a sense will be really dependent on how the market dynamics play out from here, but we confirmed guidance, and Karsten and the team are competing strongly in the market and you've heard me say before that mobiles business is a very important part of our business and it's important that we continue to offer competitive products and service and at a competitive price, but recognising the clear differentiation of the network and the product that we have.

Karsten, I don't know if you have anything else. It's a bit hard to sort of predict how the market is going to play out.

MR WILDBERGER: Yes. Look, I can just offer you maybe a perspective from how we see the dynamics and how it plays out for us. First I have to say that, for us a absolute key decision-making for customers to join Telstra remains our network advantage which is not just confirmed by P3, but it's just the amount we invest in the network, the type of demand that we see on video and the capabilities in our network is just on a different level. And that, of course, creates also our customer demand. We are very satisfied, of course, also with the price plan mix that we generate; that's a key area. And we're also very positive about multi-screens, multi-users which we are driving carefully.

So of course the market is competitive. We will remain competitive and we will watch that very, very carefully and very clearly, but it's very important, of course, that also our key focus remains network leadership, because this is why we are that successful. In particular, multi-screens, multi-users remains a great opportunity, but the competitive nature of the market is just a given and we are part of it.

MR LEVY: Thanks. I might for the first one – can I just follow up Raymond's point on mobile competition and maybe just the specifics around what's driving the ARPU pressure at the moment. I think you previously talked between your stayers, your leavers and your joiners and so whether it's customers spinning down or whether if you're adding customers at lower price points than you previously have been. That's the first one. And then second one is for Kate. Kate, you referred to your assumption is that the NBN rolls out to every premise. I suppose with some FTTB rollouts in the background, can you just talk us through what the impacts for Telstra are under the agreement that you've got if NBN doesn't go to all those FTTB buildings or, alternatively, if you have lost a lot of lines in those areas before it gets there.

MR PENN: I think on the first one, Andrew, simply the minimum monthly contributions – so the principal sort of price of the service from a mobiles perspective, looking at Karsten and Warwick here – is basically – if anything, it continues to increase modestly. But what's reducing obviously – well, what has impacted ARPU is lower data charges effectively and that's as you would expect, because if customers have got more data allowances, then necessarily they need to buy less data packs, and there are less excess data charges going through as well and that's the dynamics.

MR LEVY: So you're adding customers at similar price points; they're just spending a little bit less; is that a fair assumption?

MR PENN: I would say that's a correct interpretation. Karsten, you may…

MR WILDBERGER: That is directionally correct, but as I said, of course, we will always try to make sure that we also work the mix of customers, because we also offer great value at the higher end. We see a lot of demand there because there is increasing demand on networks, so that's the balance, but, directionally, absolutely, yes.

MS McKENZIE: And in terms of your points about mix and connecting all homes, I wouldn't so much emphasise the fibre-to-the-building piece because that's pretty small in the overall scheme of things. I guess more why it's important for us that everybody gets connected is because it simplifies the technology. Like, if NBN Co decided that it's going to be HFC in a particular area, we want all the customers to be able to be served by that so we don't end up with what we call the Swiss cheese effect where we've got sort of bits and pieces of all kinds of different legacy networks that we have to keep on going with because not all the premises are ready for service. So there has been a lot of conversations with NBN Co about how we make sure that some of the more kind of marginal product offerings can still have a transition to NBN Co so we don't end up with that Swiss cheese effect.

MR LEVY: Okay. And just in that FTTB example though, will you miss the PSAA payment, so maybe even though you say it's a small number, would it devalue a little bit the value of the NBN deal that you've got?

MS McKENZIE: Look, I don't really have a specific number in my head around that, but I think the answer is probably, no, not really, because assuming NBN is rolling out in those buildings, it's not – the transition process is not dissimilar to the transition process elsewhere. We would back ourselves to be as competitive as we would be in any other part of the market, so I'm not sure that it's going to be material.

MR BRAY: And the overarching answer to that question is, is with the new NBN Definitive Agreement, we were kept whole with the old one, so, overall, it's the same number.

MR LEVY: And you had that in mind. Yes.

MR C. WONGPAN: Hi. Just first question for Mark around the NBN income. I mean, around the ongoing level of income, can you share what that gets you once the NBN has been fully rolled out on an annual basis? And then the second question just around NBN disconnection, can you share what are some of the challenges that have been and, like, what you've learnt from that and why those costs to disconnect customers will be falling?

MR HALL: Yes. I will leave the second one for Kate, so Kate has got a bit of notice on that one. In terms of the – you could probably work out yourself sort of the trajectory, because the backhaul is completed and that's already baked into our numbers. We haven't given figures where we will end on the duct and pit lease rental or the rack space, but that will – there will be a trajectory with rollout that gets to 2020 and then beyond that, that becomes an income stream pegged to CPI. So we haven't disclosed the number, but you could probably yourself work out pretty close where it will get to. So using the numbers we've already provided to the market, backhaul is already done and effectively locked in. The pit, and duct and rack space will keep growing as the rollout continues. As I said, they're tied to service addresses past, so that will give you a sense of how that will grow and that will be locked in post-2020 for, on average, around 30 years, but subject to CPI.

MR PENN: And I think, Mark, we have shared with the market before roughly the sort of proportion of the total infrastructure access payments that are relative to the backhaul as opposed or relative to the duct and pits haven't we?

MR HALL: I can't recall that number offhand, but I believe so. Yes.

MR PENN: Yes. It's sort of – yes – I think it's pretty – it's close to half – comes effectively from the – essentially from the backhaul component or maybe a little less than half and so therefore you can assume that whatever we're getting at the moment represents that pretty much rolled out, but then to Mark's point, you've got – the rest will actually start to grow as the NBN rolls out itself.

MS McKENZIE: And in terms of sort of some of the complexities, I could probably spend a day and a-half on all of that, but if I was going to try and sum it up into the key critical things that we've been gradually getting on top of as it's rolled out, there's lots of data integrity issues, so we've got a base with data information and NBN has got their own kind of systems, and there's a lot more coordination required just to make sure errors don't get into the data and that we end up with a mismatch between what a customer is expecting is going to happen and what's actually happening. That's one category of challenge. There's also a category of challenges around what we'd called special services, and I'm sure many of you in the room would've been following the gradual release of white papers by NBN Co and I would – there are things where, for example, in the copper world, people were running traffic lights over the copper, or alarms in medical devices, or systems in lifts and things like this which don't necessarily have a product that they can easily move to in the NBN world. So there has been a whole lot of work that we've had to do to say, "If those products have to be shut down, what happens?"

So when you come – and then there's a third category of just customers who aren't interested, don't really want to move, can't see anything in it for them and, you know, what do you do to make sure that no customer gets left in a difficult circumstance because they haven't responded to the various issues. So they're probably the three main categories. There's a lot of coordination that's required to just make sure when Karsten sells a service to a customer, the requisite work has occurred and that we don't get our guys go out to provision a service and when they get there, actually the infrastructure is not there or something else has gone wrong in the process.

So they're probably the major categories of what's introducing complexity into the environment and, like a lot of these things, it's just a matter of tackling them all and, over a period of time, I'm confident we will get on top of all of that but there has – there's some tricky devil in the detail around building processes and building new products to manage all of that and making sure that every individual customer gets looked after appropriately through the course of that process. And some of that has led to much longer than desirable lead times for some of our products and we're gradually working our way through getting on top of all of that.

MR C. WONG PAN: Okay. And just a follow up to that, the – how much cost savings or how much did that cost come down once you get your head around all these aspects and so to disconnect a customer, how much would that be from where it is now?

MS McKENZIE: I think we can get pretty substantial reductions because one of the things – in the early days, there's been an awful lot of this which we have just been doing manually so we've had to throw a lot of people at managing these processes manually as we get to scale and we get on top of the best way of doing this, you can digitise, automate. We can do more self-install types of arrangements. We can have less trucks having to be rolled multiple times to get a customer on board. So, yes, I think over time we should be able to get a pretty substantial reduction.

MR C. WONG PAN: Like, over half or over…

MR PENN: I think we've given as much colour as we will.

MR C. WONG PAN: Thanks

MR R. SAMUEL: Andy, you mentioned that the market pricing for fixed broadband is coming down so I'm just wondering what do you see in terms of Telstra's ARPU in fixed broadband. Do you see similar trends as well? That's my first question. The second question is just on NBN. So Telstra is not involved in the construction contract or the latest round of contracts with NBN and I was just wondering if there's a chance for Telstra to get involved in the future or perhaps in the maintenance contracts as well.

MR PENN: Sure. Well, Karsten, do you want to talk about fixed broadband in terms of the competitive dynamics in fixed broadband?

MR WILDBERGER: Well, obviously, the market is, as you would expect, competitive and we are participating in that. However, as I tried to outline also the – I would say we've seen a very healthy shift in our portfolio of what we sell also towards bundled sales. So if you look at our media assets, Foxtel from Telstra, those bundles go really well and so it's of course a blended picture. And we are still very confident that we will play our part in that respect. We've just launched Telstra TV and that, of course, also helps us to maintain our share with being competitive but also offering a very relevant differentiation. If you look at TelstraAir, for instance, that comes with every broadband connection including NBN. This is going extremely well and we are very positive and the feedback from customers is extremely positive. So whilst the market continues to be competitive and I wouldn't have any other expectation, I think we are quite satisfied with how we managed that. I think that's what I would say at this point in time, yes.

MS McKENZIE: And on your second question, maybe I will take that. We have done some construction work for NBN Co and I mentioned the 1000 node trial. They ran a construction process which we participated in and we got to the point in the process where we just decided commercially it wasn't worthwhile for us and so that's finished but we've still got an open mind. I mean, we've got lots of open dialogue with NBN Co around things like HFC so I think, as I've said in my comments, where it makes commercial sense for both them and us, we've got a very open mind to participating. So that's the story on the construction side. On the maintenance side, maybe I didn't make that clear enough, we are already doing some temporary maintenance for NBN Co and they're in the middle of running their process again. We're participating in that process and we would just make rational commercial decisions about that as time goes by and open to sensible opportunities that make sense for us and for them.

MR N. BURLEY: Thanks for the clarification around your M&A criteria as well as the organic growth opportunities that you're looking at. I was wondering if you would be able to talk a little bit more about the imperative that there is to invest to replace some of the lost earnings and how quickly you see that need. And also just around the scale of the combined opportunities that you're looking at? You obviously have a pretty good idea of what you spent over the last two years but is that the sort of size of investment we should be thinking about over the next few years or is that likely to increase? And the second question, just for Karsten, I was wondering if you would be able to talk to how you're going to convince the market – well, consumers, that is – that not all NBN connections are created equal. Whether there's something you can do in terms of talk about average bandwidth or average CVC provision for a user or something like that that will help consumers understand the differentiation that you can potentially provide. Thanks.

MR PENN: Thanks, Nathan. Well, look, in relation to the first question, I mean, over the last five years as I mentioned in my talk, I mean, we've grown our mobiles business. We've grown our enterprise and services business. We've driven significant productivity investments. And through that period, we've offset the impact of the sale of Sensis and the run down of the earnings of Sensis, declines in fixed line income. So I think we've got a proven track record and a proven ability to basically transform the business and the financial dynamics of the business as these trends play out. And that's no different than is going to play out over the next five years with the migration to NBN. As you heard from Karsten, the mobile market is a bit more competitive now but the reality is that the demand that we see for mobiles for connectivity in the future, the opportunities that we see to continue to expand our NAS business, we feel strongly that – and the productivity initiatives which, as Warwick says, we're going to drive harder into the bottom line, are all going to be things that add value over the coming periods.

And then, of course, as you rightly point out, there will be opportunities to invest for growth in the future. It's a bit hard for me to sort of – I'm not going to put a number on that other than to say we have been making acquisitions and investments, whether they be Pacnet around very significant infrastructure opportunities – I mean, that's a great deal because there's good synergies in there but it also formulates a fantastic platform for what we're doing in enterprise services in Asia. Telkom Indonesia has been going really, really well. And then, of course, in capabilities such as Ooyala that we've touched on. And then we've made a number of investments in the network application services space domestically in Australia whether it be in security, whether it be in integration or whether it be in Cloud. So I think – I don't think you should expect any significant change, Nathan, of our approach. We're not going to suddenly start looking for bigger deals or smaller deals. The strategy, as I said, remains the same. If anything, we're upping the ante and raising the bar on our level of aspiration. Karsten, do you want to cover the…this will be a very long answer because there's lot of points of differentiation with Telstra's network in the NBN world.

MR WILDBERGER: I had a bit of time to think about that. So, thanks for the question, it's a very important one. It's actually not – and my view is – and thank you for the question. It's not us necessarily convincing customers because there's an increasing customer demand for that. We don't just see that in broadband, fixed broadband, we see that also in mobiles and we've been preparing for that scenario, what we call the perceived experience that customers receive on their mobile phone, how quickly a webpage loads. If you look at our investment in device testing, device setup, I would say that it's, globally, second to none. We have, for instance, in mobiles the Blue Tick Program because we know that not only in you need to have the best network but actually the whole value chain including the device situation has to work seamlessly. Now, a few examples just on broadband. If you take our WiFi routers that we have the Gateway Max for instance, this is absolutely optimised and I can tell you – I mean, maybe you can test it yourself – the difference it has in terms of how it penetrates through your home.

We also advise customers, of course, on repeaters, etcetera, different setups on devices to really fill their homes with the signal because the demands are simply going up. If you look at Telstra Protect, that is something we launched several months ago where we see an increasing demand. We have absolutely stellar demand on Telstra Platinum, which also shows us that customers want more help either remotely or in the home to connect the devices in the optimal way.

We continue to invest also in ADSL because we watch, of course, the capacity needs of customers very, very carefully. So we are investing a lot in perceived customer experience, including businesses, if you look at Cloud applications, the demand there of quality expectation is just enormous and that's what customers want and that's what we can deliver. So I think it works hand in hand. Starts with the customer need and then us to deliver again. Now, that's not an easy area but we are very well prepared because I think we're prepared for that for quite some time.

MR KOPANIDIS: That concludes the session. We may have – sorry. We will have a short break for about 10 minutes. Sachin you're on the line. Sachin, do you mind holding your question until the second session, if that's okay? I'm just conscious of the time here so we will have a short break and back at quarter past.

MR KOPANIDIS: So we will make a start with the second part of our session. I'll introduce Cynthia and Martijn to join up on stage and they will be covering off Asian strategy and GES. Cynthia.

MS WHELAN: Thanks, Peter. Good morning and welcome. My name is Cynthia Whelan and I'm the Group Executive for International and New Businesses, which includes Telstra Health, Telstra Ventures, Smart Home Solutions and Premium Services. This next session will cover the third pillar of our strategy: building new growth businesses. Asia forms an integral part of this strategy and today we will be focusing specifically on Global Enterprise and Services and the progress that we've made over the past year. Martijn Blanken, our Group Managing Director and Chief Customer Officer for GES will lead this discussion. In terms of our international strategy, we remain committed to the three priorities that Andy presented to the market and investor day last year.

Firstly, we want to become the leading service provider for multinational enterprises and international carriers across the Asia-Pacific. We aim to grow our Global Enterprise and Service business internationally by providing solutions, including cloud, management work services, unified communications as well as connectivity to Australian customers and multinational companies operating in the region. Martijn will provide more details on our recent progress, including the acquisition and integration of Pacnet and our Telkom/Telstra joint venture in Indonesia. Secondly, we will invest in fixed and mobile businesses in high growth markets in Asia where we can add significant value through our expertise in networks. Our investments will be focused on delivering the transition from voice and SMS to data-rich network environments in these growth markets.

Thirdly, we will develop long term grown opportunities in industries where we see evidence of technology disrupting traditional business ecosystems such as in health, in intelligent videos through Telstra Software Group and through investments in Telstra Ventures and our e-commerce business Autohome in China. Asia is a geographic priority as it sits at the intersection of two powerful opportunities. The emerging middle-class and urbanisation taking place in many countries across Asia coupled with increasing demand for technology as the cost of smartphones and other devices declines. Asia is now home to half the world's internet users who are creating and consuming digital products and demanding better connectivity.

To capitalise on this significant opportunity we're bringing innovative technology, capability and talent from around the world to deliver the best experiences for our customers and to power their success in Asia. We bring a track record of operating in Asia. Telstra has been operating successfully internationally for more than 75 years having built a world-class network in the Asia-Pacific region over several decades and established customer relationships and partnerships with some of the most innovative companies in the world. We now have 3,000 employees in 22 countries outside of Australia including over 2,000 in Global Enterprise and Services connecting thousands of enterprise, government and wholesale customers.

Asia remains a very important part of our strategy and growth agenda and we're making solid progress in executing against the three pillars of our international plan. We understand the strategic dynamics at play in Asia and we possess the capabilities required to succeed in the region. Importantly, we also understand that building a sustainable business in Asia requires time and patience, and we continue to approach our investment in the region in a measured way. I would now like to hand over to Martijn who will provide and update on the progress of our GES business internationally.

MR M. BLANKEN: Thank you, Cynthia. As said, I'm Martijn Blanken, the Group Managing Director and Chief Customer Officer for our Global Enterprise and

Services unit. And in that capacity I'm also the accountable executive for the acquisition of Pacnet and the integration of that company into Telstra. In my session I will cover off four topics: firstly, I will give a quick snapshot of the activities of Global Enterprise and Services outside of Australia after the acquisition of Pacnet; next, I will give a progress update on the integration activities; thirdly, we will dive into PBS, our joint venture in mainland China which holds licences to operate data network and data centre services; and finally, I will talk to the progress we're making in Indonesia with our joint venture with Telkom Indonesia.

As Cynthia pointed out, we aspire to become the undisputed leader in the Asia-Pacific service provider market – the business-to-business service provider market. And with the acquisition of Pacnet we believe we've made a significant step in that direction. I think that it is important to point out that we aspire to predominantly serve multinational corporations and international carries and OTT players, both in Asia as well as the connectivity in to and from North America and Europe. This implies that we do not aim to serve in-country enterprise services at this particular point in time with Indonesia and China being two notable exceptions to which I will talk later.

From an enterprise point of view, we aim at segment below the Fortune 200 simply because the services that are required to serve that segment are more manageable and the risks associated with it are significantly lower. We are a global company. GES International employs approximately 2,000 staff over – in 21 countries, but our assets, as said before, are predominantly based in Asia. Telstra holds at least an equity share in 26 submarine cables. Some of them we do own outright and a few of them actually we will get ready for service in the very foreseeable future. We also operate 58 data centres across the globe and 24 we actually own the facility or hold the long-term lease. If we break that down further into Asia, we operate 25 data centres in Asia of which 13 are either owned by us or we hold that long-term lease.

The majority of our income comes from data network services like IP VPN, international private line circuits and Ethernet services. Of course, we run these over our global network which consists of approximately 125 points of presence that we own outright and another over 2,000 POPs from partners. About two years ago we started to expand our NAS services into the Asia-Pacific region and currently we provide a fast growing suite of managed service, like, managed network service, managed security services and cloud services. Telstra was also the first global service provider to launch a hosted IP telephony solution based on Cisco's HCS platform in 24 countries in – across four difference continents. This means that customers can provide – can have a consistent user experience in all these 24 countries.

It's also very pleasing to see that Telstra is getting more and more acknowledgement from the industry analysts. Andy just mentioned that Gartner recently rated Telstra as the leading provider in Asia for low-latency and high capacity networks. We see this as a compelling proof point that our strategy is working. Also, our leading – our industry leading NPS score suggests that we are able to differentiate ourselves in a fairly busy marketplace in Asia. Although, there is always more that we could and should do to improve the experience for our customers. Therefore, we continue to work hard to expand our capabilities in Asia and in other regions and continue to earn the right to serve an ever expanding base of our customers.

Let me now move to the – to an update of the integration activities. To recap, we signed the purchase agreement late December 2014[1], and by mid-April of this year we obtained all the relevant regulatory approvals and from that point onwards we started the implementation of the integration plan. This means that we're roughly six months into a journey which we expect will take approximately two years. The first signs are very encouraging, and we are confident that we will be able to achieve the targeted run rate synergies of A$65 million by year 3. And although it's still very early days it's also very pleasing to see that our customers have responded overwhelmingly positively to the acquisition. This manifests itself not only through some positive qualitative feedback, but far more important it shows in a growing pipeline, and we also start seeing the first orders coming in from what I would call a joint proposition, which consists of X Telstra and X Pacnet capabilities.

To date a number of important milestones have been achieved. Firstly, we have consolidated all sales and service executives so that our customers interact with one team with very clear accountability. Secondly, we have retired the Pacnet brands in all geographies and, thirdly, since this month, we now work off one integrated global product catalogue where we have taken a best of breed approach and where it also means that we have retired some products, ex-Pacnet and ex-Telstra, which we thought were no longer up to the required standards. A lot of time will be spent on improving and expanding our international network capabilities. Initially, we will focus on South Korea, Japan, Taiwan, the Philippines and mainland China simply because our submarine cable footprint in countries is relatively strong. At the same time, we also have accelerated an investment program to perform maintenance and upgrade to some other cables segments which provides a better resiliency and a better customer experience for our customers.

We have started to on-board the Pacnet staff onto Telstra contracts. This is a reasonably complex exercise given the fact that it relates to approximately 800 staff in 14 different countries, and each with their own specific labour laws and regulations that you have to abide by. We're also progressing with the integration of our office space. Sydney and Taiwan were done just after the acquisition, Hong Kong is currently in train where we have most of our people based – approximately 750 – and New York and Mumbai will be completed before the end of the year. And in the coming months also, a lot of attention will go into the integration of the key OSS and BSS IT systems, as well as the consolidation of our service desks and our network operation centres.

Clearly this has to be executed with great care in order not to disturb and impact the experience of our customers, these are live networks that we're working with. The good news is that many of the people who were involved a couple of years ago with the disentanglement of the REACH activities are the exact same people who are leading this activity, so they can draw on a wealth of experience and with good confidence that they will be able to deliver a similar good user experience. So in

[1] Verbatim 2015.

summary, we like to believe that we think that Pacnet is well on track to deliver the synergies, as communicated previously, and we're also well on track with the integration plan.

And we now turn to PBS. One of the reasons that underpinned the acquisition of Pacnet was the presence in mainland China. As you probably know, not many foreign telcos have the licenses to operate in China and provide domestic services both the Chinese customers as well as Chinese operations of foreign entities.

PBS is a 50/50 joint venture and it's the first and the biggest operation with partial foreign ownership in mainland China. It's still a relatively small company; it employs approximately 150 people but out of the six cities, it runs a network which consists of 27 POPS, points of presence, in 22 cities and it also runs two state-of-the-art data centres, one in Tianjin, which is in the North-East of China, and one in Chongqing in the west of China. In China, it is of the essence to maintain good relationships with the three Cs, China Unicom, China Telecom and China Mobile, as these are the companies that provide the local tools that provide our – that hook our customer premises to our network. And now that we have a relatively large number of people on the ground in China, we're much better able to do that in an effective way. We're also in the process of finalising a three year roadmap for our China strategy and PBS is obviously the logical vehicle to execute that as far as it relates to enterprise and carrier customers.

Expanding on managed services capabilities like cloud network services and unified collaboration, it will be a logical extension of our existing operations. Clearly, it is very important that we maintain a consistent customer experience across multiple geographies and, to that end, we've also started to explore the opportunities to align the operational and technological practices in PBS better to the ones that are currently used in Telstra outside of China. The growth rates of our Chinese business are actually quite attractive and we believe they will be even further accelerated once we start to move all the traffic for our current customer base from the existing providers on to the PBS network. So to reiterate the point that I made in a previous section, it is very pleasing to see that our customers are so positive about our capabilities in China and it's also good to see that it has already led to some fairly significant contracts.

Let me now turn to Telkom Telstra which is our joint venture with Telkom Indonesia. The nature of the business; a partnership with an incumbent telco to establish a start-up is unique and a first for Telstra. But, pleasingly, telkomtelstra has made significant progress, evolving from concept just after signing the memorandum of understanding 18 months ago to real live operation today. The aim of the joint venture is primarily to serve the Indonesian enterprise market, including the Indonesian operations of foreign enterprises. It provides a range of market leading managed services, like managed network services, professional services and also a suite of software-as-a-service solutions. The joint venture is an end-to-end operating entity, from product management, product development, solutioning, delivery and on-going management. And it uses the extensive sales organisation of Telkom Indonesia as its channel to market.

The business is now fully operational. It employs 71 people who all work out of our facility in Jakarta. That facility also houses the first and only, at this point in time, Customer Experience Centre in Indonesia, not dissimilar to the one we're here in today, here in Sydney, although it is at a somewhat smaller scale. But the Centre is set up to demonstrate to the Indonesian enterprises what the effective application of new technologies can do to them to support their business operations. We believe that the market potential in Indonesia is very large and our pipeline is building very rapidly. And many of the corporate clients currently served by Telkom Indonesia are currently not even using the types of services. Four customers have been signed up to date and well over 200 sites are already under contract. And looking ahead, we will be releasing a next suite of managed services in 2016, like security services, cloud services and also a range of unified collaboration services.

So our partnership with Telkom and with their strength in the market, combined with our capabilities to develop and deliver leading managed network and managed services, is leading – the fact that the joint venture is able to make a true differentiating impact on the Indonesian marketplace. So, in closing, I would like to leave you with four points. Firstly, growing our business-to-business activities outside of Australia is a fundamental component of Telstra's strategy. Secondly, we have a clear strategy in place – both organically and inorganically – and we're currently executing to the plan. Thirdly, we are effectively leveraging our core capabilities and our assets in the region. And finally, GES will continue to be a strong driver for long term growth of the company. With that, I would like to hand over to Brendon.

MR B. RILEY: Well, good morning and thanks to Martijn for that. And you've got David Burns and myself to take you through the final element in the program this morning. And we intend to cover three main areas. Firstly, our NAS product portfolio and the value it brings our customers. Secondly, the performance of our NAS business to date. And, finally, the future outlook of the business with more insights into the financials. To provide some context, I want to start by describing the current market situation and the trends that are shaping our GES business. At a macro level, we see the continued evolution in our markets, which presents exciting opportunities as we serve the needs of businesses, government and multi-national corporations around the world. More specifically on the trends shaping the market, new cloud, internet and software technologies are fuelling disruptive business models. A convergence of traditional products and services into solutions that are becoming more attractive for customers.

And globalisation along with the Asian century, combined with the other trends, are placing more demand, more than we've ever seen, on the need for global connectivity which Martijn has just discussed. These trends translate into exciting growth for us in terms of connectivity, cloud, collaboration solutions, security and other network centric services that we have been positioning ourselves to provide over recent years. Indeed, the opportunities are quite pronounced, with continued strong growth across NAS markets in Australia and Asia. In response, we have developed a sound strategy and compelling portfolio of products for different market segments. We continue to develop our Global Enterprise and Services portfolio to meet the evolving needs of our customers in these segments. NAS is an important part of this portfolio that complements our connectivity offers. We provide a compelling range of network centric services that are integrated with and delivered off our leading networks and award winning cloud platform.

These include managed data networks and security, unified communications, mobility and industry solutions. Our industry solutions include our award winning LANES technology that provides network priority over mobile connections for emergency services and critical corporate applications. We deliver media industry solutions such as those provided through our recently announced Telstra Broadcast Services. Part of our value proposition is that we also provide our customers with trusted consulting expertise, technical design, project management and other services. Our services enable our customers to better serve their own customers, engage their employees, and to compete and operate more effectively in their markets. Our customers value these services particularly when integrated with our connectivity solutions. For Telstra, these services build stronger relationships with our customers which we sustain over time, leading to better customer advocacy, outcomes and results. We also benefit from synergies in selling and delivering these services as we scale and can control end-to-end service assurance.

An excellent example that illustrates the value NAS is our relationship with Komatsu. Building on a 15 year relationship, in June we announced a whole of business arrangement with Komatsu for the next three years. We worked closely with Komatsu to co-create innovative solutions that will deliver the right service outcomes to help them compete effectively in a very rapidly changing landscape, particularly in mining. As part of the deal, we will provide the core telecommunications and strategic services to enable their Machine to Machine (or M2M) strategy. Komatsu will also transition to a hybrid cloud solution this year, and as part of the new platform deployment, Komatsu will enhance its disaster recovery capability with automated services that will significantly improve their recovery time objective. Importantly, this new model gives Komatsu a base that aligns to its current workloads, but also has the ability to scale and grow as its needs change over time. As Ian Harvison, the CIO at Komatsu has said, “The new agreement really is the extension of a very collaborative and innovative partnership.”

We see NAS as key to our GES strategy and it has also been identified as an area of strategic growth for Telstra. Our vision is to create transformational customer experiences through our World-class connectivity and service solutions. Our NAS customer offer is based on five key differentiators. One, a customer focused approach. Secondly, market leading innovative solutions. Thirdly, integrated offerings. Fourth, the best networks. And, finally, scale and reach in Australia and around the world. Our strategic priorities in NAS are to drive world-class customer advocacy; evolve our business mix towards more profitable software-enabled services; and strengthen our platform as we scale globally for growth. Looking at each of these in a little more detail, on world class customer advocacy, the key programs include the digitisation of the customer experience; strengthened integrated service management; and process improvement. In particular, digitising the customer experience is an important enabling initiative, as it creates insight driven sales conversations, superior self-service and also improved collaboration with our partners.

Evolving our business mix and expanding internationally. We will continue to invest and grow our portfolio with a strong focus on software centric services globally, such as Cloud and SDN; and expanding security, mobility and mid-market services. In terms of Cloud, we will continue to execute our MultiCloud Strategy to provide customers with integrated solutions and a reliable and compliant service experience across multiple Cloud providers and hybrid deployment options. We are also investing and innovating across cloud and networks to prepare customers for the software defined world. This includes a major project to virtualise of our network architecture to enable the network to take on cloud characteristics, expanding and contracting in line with customer demand for network resources.

And, finally, strengthening the foundation for profitable growth. This involves a broad program of initiatives including globalising the operating model, transforming the business towards a scalable global platform and increasing our standardisation and automation. We are already seeing encouraging results from these initiatives as we go forward. With that, I would now like to introduce David to talk a little bit about our performance and outlook. Thank you.

MR BURNS: Thank you, Brendon. Good morning, everyone, my name is David Burns and I'm the Group Managing Director for Global Services and that makes me the accountable executive for the Telstra NAS business.

So looking more broadly at how our NAS business and how it's performing, we have seen continued strong growth in our NAS or our services revenue. This growth complements our data and IP portfolio, which are performing well compared to our peers. We have been integrating our services acquisitions such as O2 and NSC and are very pleased with the results of these acquisitions in terms of both business performance and integration activities completed. We also acquired Bridgepoint communications during the last fiscal year, which we are similarly pleased with the progress of this acquisition as it has brought greater capability and focus to the Queensland market in our managed networks and security portfolio.

We continue to work with leading global technology companies, including our global partnership with Cisco and, as mentioned earlier, I'm proud to say that our efforts have been recognised externally with a number of industry awards for excellence: 11 awards from Cisco, Cloud Partner of the Year, Cloud Collaboration Partner of the Year, six aware from Frost and Sullivan, Data Communications Service Provider of the Year, Unified Communications Service Provider of the Year for Asia Pacific, just to name a few of those.

We are on a journey with our NAS business. In the inception phase of this business, our focus was to acquire foundation customers and invest to build capabilities and platforms to grow scale and sustain growth. As we move along our journey, our business focus has evolved. We are now in the growth phase and we are continuing to build momentum in terms of enhancing scale and capability and evolving the business mix for profitable growth.

You will note on this chart that there are three forms of margins highlighted. Let me take a moment to explain this. We start with Services Contribution Margin or SCM. This is a measure of profitability at the contract or the customer level and specifically includes the costs that directly related to the execution and delivery of that said contract, including labour, costs of goods sold and third party product costs. Next, you will see Direct Contribution Margin or DCM. This, effectively, is the service contribution margin less the sales and product development costs directly attributable or apportioned to the services business and then EBITDA, which, of course, is DCM less the corporate overheads allocated to this services business.

The net result is that our services contribution margin is in the mid-twenties, consistent with what we've indicated at previous investor briefings. This is the kind of margin that we would expect for a services business in the growth phase. As the business moves towards a more steady state, we expect an upwards trend in the underlying service contribution margin, adjusted for any cyclical effects to this contribution margin caused by a mix of major contracts or major contract milestones.

We will now cover our current and medium term NAS profitability outlook in little more detail. Our financial year '15 services contribution margin was approximately 24 per cent, improving two points since the fiscal year '14. We expect this services contribution margin to reach high twenties over the medium term. We also keep a line of sight to EBITDA, which has improved 5 points since FY '14, a contribution of both at the services contribution margin and also at the allocated costs, as explained earlier.

We will deliver further margin improvements by continuing to optimise our scale and operational leverage, evolving our business mix and transforming the way we deliver services through globally scalable platforms and, in the natural course of our business, we may experience short-term variation due to major contracts or their associated milestones. As we scale our business and realise the benefits of operational leverage, the share of corporate costs will get smaller. Importantly, we will continue to build our business in Australia and Internationally. We have established strong momentum in growing our business while strengthening the foundation for profitable growth.

We also have grown a significantly sized practices or services practices business both organically and inorganically, which includes capability in cloud services, managed network services, security, cloud collaboration and emerging capabilities around mobility and big data and analytics. A further area of focus has been on implementing a broad productivity and automation program, optimising our resource deployment methods and practices, leveraging established global delivery centres and increased automation in solutioning and project delivery, which are delivering encouraging results.

We are confident we will deliver profitability improvement and ultimately shareholder return by continuing to implement these strategic initiatives leveraging the good momentum we have established along our journey. Thank you, that concludes this section of the presentation. I will now invite Martijn, Cynthia, Andy, Warwick and Brendon back to the stage. Thank you.

MR KOPANIDIS: So we've got about 25 minutes and then there will be media Q&A at the conclusion of this. So we will just start with Sameer.

MR CHOPRA: Good morning. Two questions: firstly, you know, just looking at the data and IP business, you've got Vocus and TPG that are now much more sort of scaled up competitors. I was wondering if you could give us a view around the outlook for the market. Are you seeing a lot of competition? What's going on, in terms of pricing in the markets? So I would love to understand what's going on in data and IP. And the second question is more around the Philippines and how would you – what are the sort of metrics that you would look at to evaluate whether a deal in the Philippines makes sense? And which executive would be responsible for delivering on that?

MR RILEY: I will take the first one, Sameer, on the data and IP. So I think your synopsis is correct. I think there's definitely more intensity in the data and IP market and our strategy is working with the portfolio of solutions and offerings we have to really make sure we bundle those and work very, very closely with our customers on co-creating and innovating, whether that's from a unified communications security, you know, network services perspective. So we feel we can really compete with greater intensity given all of the services capabilities we have. But we're definitely – definitely seeing that.

MR CHOPRA: Churn hasn't gone up in that market yet?

MR RILEY: No. I don't – I think it has been pretty stable, you know, for us. So in the mid-market area, that still remains, I think, a good opportunity for us to increase our share and, obviously, some of the organisations you mentioned are very – you know, very focused there. So

MS WHELAN: And, Sameer, perhaps I will answer your question in relation to the Philippines, because – and in relation to the second part of your question – I'm the executive who would be responsible for delivering on the Philippines were a transaction to go ahead. In terms of how we think about reviewing any opportunity in the international market, as well as in the Australian market, as Warwick and Andy outlined earlier this morning, allocations of capital are made consistent with the capital management framework that we outlined and then in terms of specific metrics, we apply the metrics that Warwick outlined. So in relation to an opportunity, such as the one that we might be contemplating in the Philippines, that would require the opportunity to be NPV positive and the WACC that we would use for that would be a WACC plus a risk margin.

MR CHOPRA: And how close are we to a decision on this? Is this like a 2015? Do we think we'll hear pre-Christmas, or is it something that is still very early stage?

MS WHELAN: Well, negotiations are ongoing, and I think that's all that we can disclose at this point in time.

MR CHOPRA: Thanks.

MR WONGPAN: Hi. Craig Wongpan from Deutsche Bank. Just a question on the NAS business, on the types of contracts. I'm just trying to get a better understanding of – you know, are there, sort of, KPIs, performances – you mentioned, like, milestones. Is it, like, a blanket sort of agreement, or is there, sort of, pay per service used? And then just a second question around Asian investments – just wondering the, kind of, FX hedging strategy around that. Like, do you, sort of, do it from day 1, or – just trying to get a better understanding of that?

MR BURNS: So why don't I take the first of those questions. In our NAS business, we have a varying range of contractual relationships with our customers. They may go to long-term multi-year agreements which contain service levels and KPIs which we're measured on, on an hourly, daily, weekly, monthly basis, down to projects which are about constructing or building a project and effectively handing that to operate to the customer, and everything in between – and then, as I mentioned, our services practices business. We also do consulting-type work, which is paying for people's time and effort. So it's a vast range of that. There's no doubt that we would like more annuity business in our mix, and that is one of our targets of what is an annuity-based business as opposed to constantly needing to resign business, but you will always have a mix.

MR PENN: So just on the hedging point – I mean, I'll get Warwick to comment as well. I mean – so I mean, we hedge, obviously, all of our borrowings back into Aussie dollars. So that's one aspect of it, albeit – were we to do a deal in the Philippines – and we've confirmed that we are in discussions, but there's no transaction which has been agreed at this point of time, but were we to do that, it would be locally funded as well, and we would match the – obviously, the funding with the local currency, which would be generating the earnings.

We don't hedge the translation of earning, obviously, like, you know, Autohome, or CSL when we had it. I mean, that just translates through the P&L account and back into the balance sheet and consolidated into the balance sheet on the basis of whatever the currency movements are at the time, and then other – so we sort of tend to hedge known cashflows over finite periods of time, but actually in terms of, sort of long-term investments in assets and holding assets, you know, obviously shareholders can formulate their own point of view about our exchange at various different currency exposures, but we don't seek to sort of try and hedge out the translation of earning through the P&L account. Does that, sort of, cover the

MR WONGPAN: Yeah. That's helpful. Thanks.

MR MARTIN: I'm interested in the trends in data and IP on the one hand versus NAS in the other. Data and IP – pretty chunky revenue – not growing, but very good margin – slight dilution, I guess, in those margins – versus NAS. You're getting some growth there, picking up scale, margin's increasing. But really largely the same customer base, isn't it, between the two sets of products? And indeed, even those corporate and government customers also buying mobile services. So to what extent is there an ability to go to those customers and say, "Between these sets of products, you're getting much greater value in the product set that we're delivering you – whether it's network, NAS – and, you know, not necessarily in bundling, but being able to extract more value from the total proposition you're offering to those corporate and government customers. And in that sense as well, to what extent is there an ability to, you know, manage the resource base – both data and IP and NAS – towards that, you know, total value add from corporate and government customers.

MR RILEY: Yes. So maybe I might start off on that one, and I'll ask, maybe, a couple of the guys to contribute as well. But I think when we look back at where the market was going with data and IP, we could definitely see, you know, that we were facing into an environment here, domestically, that was more challenging, and so the whole NAS strategy was talking to exactly what you just outlined. We had to get ahead of that. We had to figure out how we were going to generate more top-line growth – or more EBITDA growth and more cash long term, and so that was how the NAS strategy was formulated, and the way it works is exactly how you articulated it.

We find when we've got NAS with data and IP that our customers are more "sticky" – if I use that word – and we do drive more value, because we're able to get into a lot more of the co-creation and build more of the innovative solutions. So that's how it played out here, and I think it's a really good case study. It's challenging, because we've been driving SCM and DCM on services, and at the same time we've been trying to really make sure we manage the data and IP margin as well. Now, some operators around the world haven't got that quite right. I think we've done a very effective job of managing the balance there. Where we do see a lot of growth in data and IP, I still think is in the mid-market here domestically and also internationally, and I might just ask Martijn to just briefly touch on, you know, the international side.

MR BLANKEN: Yes. Look, in the international, the trends are fairly similar to the domestic market, with one added complexity: that you try to provide a consistent user experience in different countries where you do not fully control the end-to-end underlying infrastructure. So you have to put a bit more effort into managing third parties who provide the local tails and/or other components that have to be delivered on the ground. So an added capability is, basically, partner management. So a lot of time and effort is going in to set up a good network of reliable partners in the various geographies, but the trends are very similar to what Brendon just described.

And I think another point is worthwhile making: that I think over time, it will be increasingly difficult to distinguish the individual product components. It will be more and more a per user or user based range of services for an X amount a month. So what we currently see is data IP and cloud and IP telephony and security, and you have separate revenue streams for those four products. I think two, three years from now it will be very distinguished exactly which revenue stream pertains to what particular capability, because this bundled, as you call it – but is actually fully technologically integrated in the offering that we bring to our customers.

MR PENN: I think – Ian, can I add a comment as well, because I think this is a really exciting time for our network application – our global enterprise services business. We're at real inflection point. As I mentioned before, the services revenue that we're now receiving from our enterprise and government customers is almost equivalent to and will soon exceed the carriage revenue we're achieving from the same customers – and exactly to Brendon's point and to your point, Ian. I mean, this is actually – customers, they don't want to just, sort of – they don't need just – want just connectivity. They actually want productivity and business solutions. They want Cloud. They want unified communications. They're concerned about their security. And these are all services that are bundled up with the network proposition, and so it's a fantastic way to expand our relationship with our customers, address more of their needs, to grow our business, to grow EBITDA, to protect, frankly, our data and IP business, or enhance the data and IP business as well.

And then, of course, if you sort of look into Asia, with the core platform that we have with Pacnet, I mean, the potential in that market where these services are far more nascent is significant. I mean, we – you know, in the Philippines, as an example, as Martijn's spoken about in terms of the telkomtelstra JV, for customers in the Philippines – companies doing business in the Philippines, this managed – a managed network service doesn't really exist today, does it, guys? I mean – so, you know, you've got customers and businesses out there who are running businesses, and, you know, they get a business interruption and they don't know whether it's a software issue, a hardware issue, a network issue, or where it is and how quickly it can get fixed. So we can transform their business models, and in growth markets, what customers are more interested in are those types of solutions. So I think we're at a really exciting time. We've built up a really fantastic set of capabilities, and I think it will be an instrumental part of our growth over the next five years.

MR MARTIN: Great.

MR S. GUPTA: I – thank you very much. Just got a few questions. Firstly, Andy, can I ask you why Philippines? I mean, what's the appeal of that market? Is it just a spectrum, or there's something else? Because there are a few of the global telcos that looked at it, but they just walked away. And also, in that regard, why not Myanmar? Because Myanmar is looking to issue some new licences as well – or actually, one more new licence. Could that be appealing as well? So that's one. Secondly, on the first session on the NBN, there was a lot of talk about the earnings impact being negative. Can I understand, what are your expectations on how the retail market shares could evolve post the NBN world? Is there a reason why Telstra can't actually gain market share in the retail space?

MR PENN: Thanks very much, Sachin. So firstly, in relation to the Philippines, look – and as Cynthia said, we've being doing business in Asia for a very long time and we've got some businesses that are performing really well. We've just talked about what's happening in Asia from Martijn on the global enterprise services side, Pacnet is going really well, Martijn talked about the opportunity there in China. I can't say who, but we've just picked up a very significant global technology company that wants – from a data centre perspective in China through PBS; that has given us great opportunity. telkomtelstra JV is going really well. And so, firstly, we think that Asia is an attractive region for us to continue to look for opportunities to grow, but I would say in a measured and a considered way and absolutely leveraging our capability.

The Philippines itself from a mobiles market perspective is interesting, because it has only – there are only two incumbent operators and obviously one never underestimates their competitors, but there's many markets elsewhere in the region where there's 6, or 7, or 8 operators, so it makes it a pretty busy market in which to consider potentially entering. The EBITDA margins in the Philippines have been relatively strong and were we to complete a deal, the partner is a very strong partner both from the perspective of its business interest in the market and also its spectrum holdings as well. And, frankly, let's face it, go to the Philippines, experience for yourself the sort of lousy service you get from the incumbent operators and you will see that the opportunity there for a new operator to provide a much better quality service over an LTE network over better spectrum, I think there's a significant opportunity.

Now, of course, any new venture has got it's a level of risk, that's why we considered and measured with it and, as you also know, and, Sachin, you're very experienced in the region, so you know this, but, I mean, basically as a foreigner – as a foreign investor in the Philippines, you are limited to a 40 per cent shareholding, so this would be very much a partnership and our capital would be equivalent effectively to that shareholding and then also supplemented by external financing as well, but it's a good market. As regards why not Myanmar, I mean, we think that the Philippines offered a better immediate opportunity for all of the reasons that I've mentioned, and I would also say that we would also be considered and measured which really is me just saying we're thoughtful about we're not going to take on too many things at once; we recognise this would be a significant investment and a significant project; we've got a lot of capable. We're doing a lot of work there and supporting San Miguel to date in terms of the design and the network rollout if that were to go ahead. And so therefore we're also very cognisant of how we allocate and how we invest our resources. So they would be my comments.

I think on NBN – Karsten is not on the stage at the moment, so maybe I will sort of speak for him, but, I mean, look, the point is, is that we have been growing our market share in retail fixed broadband over the last 2, or 3, or 4 years and currently our market share in NBN is at or slightly above our incumbent market share in retail fixed broadband, and so we absolutely aspire to at least maintain our market share in retail fixed broadband and give ourselves the aspirational challenge of increasing it as we go through that transition. Of course, it's a competitive market and there will be new players and new entrants coming in as well, but we will see how that plays out, but we – that's our aspiration, that's our focus, Sachin, and there's no reason why we shouldn't. The impact on earnings has really got nothing to do – it's not really much to do with market share, it's more just to do with the fact that we move from being effectively the provider of all of the infrastructure through a reseller of somebody else's infrastructure in the NBN Co and it just fundamentally changes the economic dynamics as we all know. So thanks, Sachin. I think – hopefully that's covered.

MR GUPTA: Thank you.

MR LEVY: Thank you. Three questions from me. The first one is just following up on the Philippines. You've obviously done a lot of work and within the market I notice there's a pretty wide spectrum of what the initial investment would be, so I was wondering if you can just give us some colour on what the initial network investment might be for the entire JV and then obviously there's a funding requirement from everyone. On the China expansion, I was just trying to get some scope, whether that's a market now that you've got a footprint you'd look to expand organically or whether there would be further M&A in that space. And the third one was just with the confidence that seems to be coming through on the Indonesian JV, whether that's a business model that translates to other markets in Asia, partnering with an incumbent, or it's quite unique and specific to that market's various circumstances? Thanks.

MR PENN: Just on the first one. So as I mentioned, we would be restricted to a 40 per cent shareholding for regulatory reasons, and so that would be the basis on which we would invest, plus we would also seek to – the venture would seek to – have external financing and we would probably pitch that somewhere equivalent to our current sort of gearing ratios which are around sort of 50 per cent'ish, maybe a little bit less than that. On the basis of that, and our sort of view of the market, and rollout, and everything else and this is sort of at the early stage, our estimate would be an investment from Telstra would be less than US$1 billion.

MR LEVY: Over what timeframe, Andy?

MR PENN: Well, basically to get to a point at which you've started up the business, you've invested the capital, you're building up the network and cash flow is positive and effectively self-financing. Yes. So that would be our view. I mean, of course, subject to obviously how things play out and how the rollout goes, but we're talking sort of a less than US$1 billion.

MR RILEY: And then maybe just on the other two – or China, the focus right now is probably more around organic and partnerships, so we've really got to, as Martijn outlined in his presentation, really bring to life the potential of the existing JV, and that's our focus and I think we're off to a very good start there. And with telkomtelstra, one of the assets that we're developing is a managed network services asset and maybe it might be a surprise or might not be a surprise, but for a lot of corporate customers in Indonesia, and government entities and in businesses in general, they don't have visibility on the network and what's happening in the performance, and where there's outages, and how they can optimise it and drive all those moves, adds and changes. So David's team is developing that asset and it definitely, I think, has portability to other developing markets particularly in ASEAN.

MR LEVY: Thank you.

MR KOPANIDIS: Well, there's no further questions in the room. We will close four minutes early and open up for media Q and A. So thank you for your attendance, everybody.

MR PENN: Thank you.

[Q&A ENDS]