



20 June 2018

Office of the Company Secretary

The Manager

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

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

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra2022 – briefing materials

In accordance with the Listing Rules, I attach a copy of the presentations and speeches to be delivered by Andrew Penn, CEO, Warwick Bray, CFO, and Will Irving, Group Executive Telstra Wholesale, at Telstra's Strategy update today, for release to the market.

Yours faithfully

Sue Laver
Company Secretary

Telstra2022

Andrew Penn



Disclaimer

These presentations include certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Telstra, which may cause actual results of Telstra include general economic conditions in Australia; exchange rates; competition in the markets in which Telstra will operate; the inherent regulatory risks in the businesses of Telstra; the substantial technological changes taking place in the telecommunications industry; and the continuing growth in the data, internet, mobile and other telecommunications markets where Telstra will operate. A number of these factors are described in "our material risks" section of our Operating and Financial Review (OFR) which is set out in Telstra's financial results for the year ended 30 June 2017 which was lodged with the ASX on 17 August 2017 and available on Telstra's Investor Centre website www.telstra.com/investor.

In addition to the risks and uncertainties outlined above, there are particular risks and uncertainties in connection with the implementation of Telstra2022 including the response of customers to changes in products, the risks of disruption from changes to the organisation structure; that detailed business plans have not been developed for the entirety of the strategy and the full scope and cost of Telstra2022 may vary as plans are developed and third parties engaged; Telstra's ability to execute and manage Telstra2022 in a sequenced, controlled and effective manner and in accordance with the relevant project and business plan (once developed) and Telstra's ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the plan.

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All forward-looking figures in this presentation are unaudited and based on A-IFRS. Certain figures may be subject to rounding differences.

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Telstra2022

- Radical simplification through reduction in plans 1800 → 20
- Migration of customers to new technology stack in 3 years
- Fully operational standalone infrastructure business in 12 months
- Reduce the need for service calls by two thirds
- Lead in all networks performance surveys
- Increase productivity program by \$1bn to \$2.5bn
- Monetise up to \$2b in assets

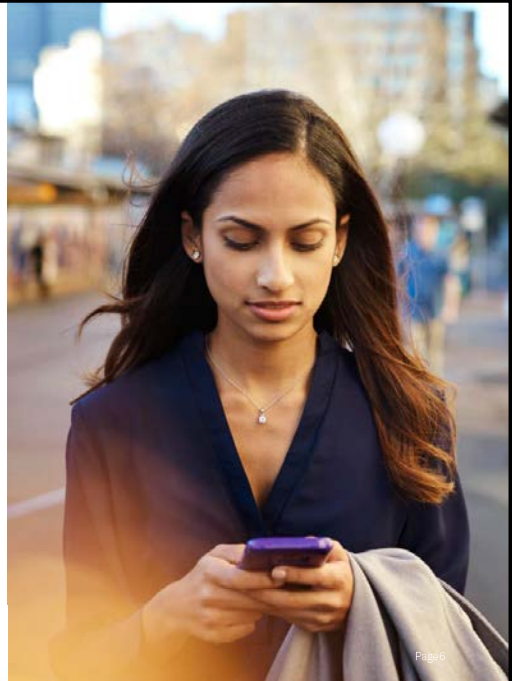


With a new plan

Strategic pillars	Radically simplify our product offerings, eliminate customer pain points and create all digital experiences	Establish a standalone infrastructure business to drive performance and set up optionality post the nbn rollout	Greatly simplify our structure and ways of working to empower our people and serve our customers	Industry leading cost reduction programme and portfolio management		
Enabled by our \$3b investment program	New digital platforms					
	Australia's largest, fastest, safest, smartest and most reliable next generation network					
Delivering	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of \$2.5bn by FY22	Post-nbn ROIC > 10%

Agenda

9:30am	Andy Penn	Introduction & Strategy
10:00am	Vicki Brady Brendon Riley	Pillar 1
	Will Irving	Pillar 2
10:30am	Technology Showcase over morning tea	
11:00am	Alex Badenoch	Pillar 3
	Warwick Bray	Pillar 4
	Robyn Denholm	Enablers
	Warwick Bray	Financials
	Andy Penn	Closing remarks
11:50am	Q&A	
12:45pm	Technology Showcase over lunch	
1:45pm	Concludes	



Telstra2022 Pillar 1

Strategic pillars

Radically simplify our product offerings, eliminate customer pain points and create all digital experiences

- Radically simplify our product propositions, remove customer pain points and deliver effortless all-digital experiences
- Eliminate profit pools driving customer dissatisfaction
- Drive growth with new products and services
- A new approach to rewarding and recognising customers
- Migrate all customers on to the new product propositions



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Telstra2022 Pillar 2

Strategic pillars

Establish a standalone infrastructure business to drive performance and set up optionality post the nbn rollout

- Establish a standalone infrastructure business unit within Telstra
- Report as a separate segment in financial accounts
- Implement commercial arrangements to drive transparency
- Drive improved performance and productivity through focus
- Drive capital efficiency including monetisation opportunities
- Create optionality for a demerger or entry of a strategic investor in a post-nbn rollout world



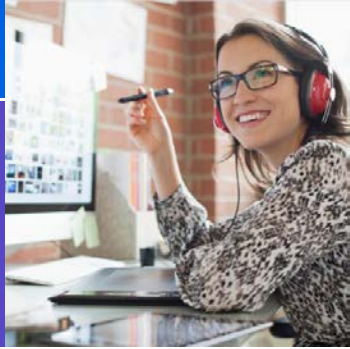
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Telstra2022 Pillar 3

Strategic pillars

Greatly simplify our structure and ways of working to empower our people and serve our customers

- Simplify and flatten our structure and transform our operating model
- Eliminate 2-4 layers of management
- Scale up our shared services model to drive efficiency and effectiveness
- Elevate our organisational focus on product creation and innovation
- Accelerate implementation of new ways of working that embed agile, DevOps, Lean and customer centred design



Telstra2022 Pillar 4

Strategic pillars

Industry leading cost reduction programme and portfolio management

- Realise cost benefits through:
 - Fewer, simpler products
 - Leaner organisation
 - Digitisation and automation
- Improve capital efficiency by continuing to simplify our portfolio and optimise the performance of our assets
- Maintain balance sheet strength and financial flexibility




Telstra2022 Enablers

Enabled by our \$3b investment program


New Digital Platforms

- New digital platforms to support our go to market propositions
- Digital capabilities to enable future growth areas



Australia's largest, fastest, safest, smartest and most reliable next generation network

- Network superiority and reliability
- Next generation software defined network
- Leading into the 5G era



Leading with 5G

5G in conjunction with software defined networking and machine learning will enable huge gains in spectral efficiency, new technologies like IoT and a range of new business opportunities



Phase 1

Fixed-wireless solutions – where mobile market develops and makes sense for customers



Phase 2

Lower cost per Gig network capacity and greater spectral efficiency



Phase 3

New use cases and emerging opportunities e.g. industrial IoT

Telstra2022 will deliver 6 key outcomes

Outcomes	Customers	Simplification	Network	Employees	Cost reduction	Balance sheet
	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of \$2.5bn by FY22	Post-nbn ROIC > 10%
Metrics & Measures	<ul style="list-style-type: none"> Increase NPS 3 to 6 points pa Double active 24/7 app users from 4m to 8m by FY22 – 6m active users by FY20 Increase average services per customer Eliminate two thirds of total servicing calls by FY22- one third by FY20 	<ul style="list-style-type: none"> Build and launch new digital technology stack in FY19 Simplify from ~1800 to ~20 active Consumer & Small Business plans Rationalise 50% of Enterprise products and migrate all Consumer & Small Business customers to new digital technology stack by FY21 Reduce 2 to 4 management layers in the organisation 700apps decommissioned or contained by FY20 	<ul style="list-style-type: none"> Lead in all key industry network performance surveys from FY19 Network ready for 5G in H1 FY19 Full commercial deployment of 5G in capital cities, major regional centres and other high demand areas by FY20 	<ul style="list-style-type: none"> 80% of Agile teams at level 3 of Agile Maturity by FY20 1 quartile increase in ease of doing business management practices of Organisational Health Index (OHI) by FY20 Increase employee engagement score 10 points 	<ul style="list-style-type: none"> Net cost productivity – more than \$1.5bn cumulatively delivered by FY20 Total costs will be flat or decline in each year from FY18 Absorb nbn CVC/AVC costs Labour cost to sales ratio to decline – one third by FY22 Top quartile cost metrics for full-service telco by FY22 	<ul style="list-style-type: none"> Underlying ROIC to improve from FY19 to FY22 Monetise assets of up to \$2bn by FY20 Establish standalone infrastructure business unit with effect from 1 July 2018 High level SLA's for infrastructure business to be defined by 1 October 2018 and segment reporting by 31/12/18 Telstra InfraCo fully operational by June 19

A new plan

Strategic pillars	Radically simplify our product offerings, eliminate customer pain points and create all digital experiences	Establish a standalone infrastructure business to drive performance and set up optionality post the nbn rollout	Greatly simplify our structure and ways of working to empower our people and serve our customers	Industry leading cost reduction programme and portfolio management		
Enabled by our \$3b investment program	New digital platforms					
	Australia's largest, fastest, safest, smartest and most reliable next generation network					
Delivering	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of \$2.5bn by FY22	Post-nbn ROIC > 10%









Pillar 1: Consumer & Small Business

Vicki Brady

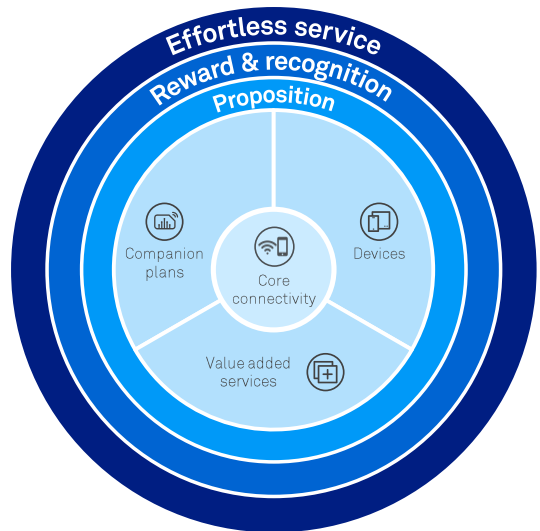


Our ambition is to set a new benchmark of trust with our customers

-  Radically simpler product propositions
-  No more complex bills or charges for excess data
-  Only pay for the services customers value
-  Freedom to move between plans at any time
-  Incentives to have more services with Telstra
-  Effortless digital service



Transforming our customers' relationship with Telstra to drive growth



By 30 June 2019 customers will experience a radically simplified, fully-digital relationship with Telstra



Products

More than 1800 plans



Less than 20 core plans



Customers

High customer effort through multiple touch points



Intuitive digital experience



Team members

Multiple legacy systems driving complex processes



One CRM supporting radically simplified processes




Rewards


Access to tickets and events





Incentives for customers to have all their services with Telstra


Telstra is leading category innovation in next generation connected experiences


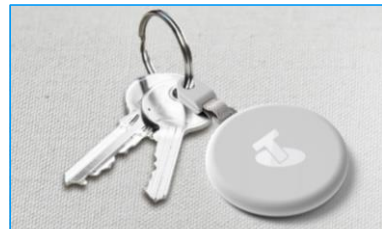
Safe and secure solutions with Telstra Smart Home 



Keep track of what's important on Australia's largest and most powerful finding network 

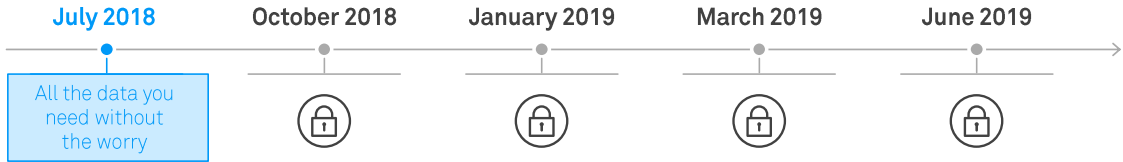


New growth opportunities enabled by cutting edge 5G capability 








The most comprehensive range of location devices using multiple network technologies

Customers will progressively experience a new relationship with Telstra over the next 12 months



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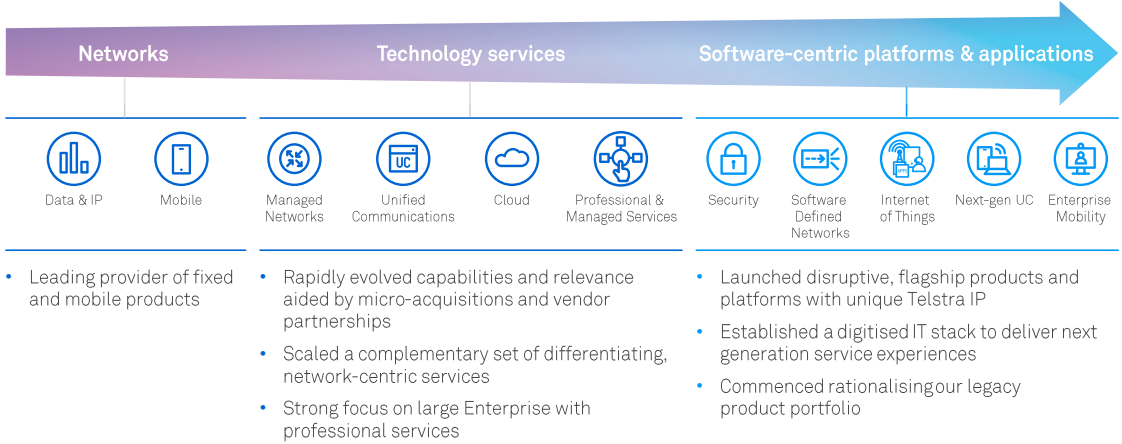
			
Peace of Mind data on a wide range of plans	Entry level companion plans for mobiles and tablets	Easy purchase of incremental services with express checkout	Effortless digital interactions with the 24x7 App re-launch

Pillar 1: Enterprise

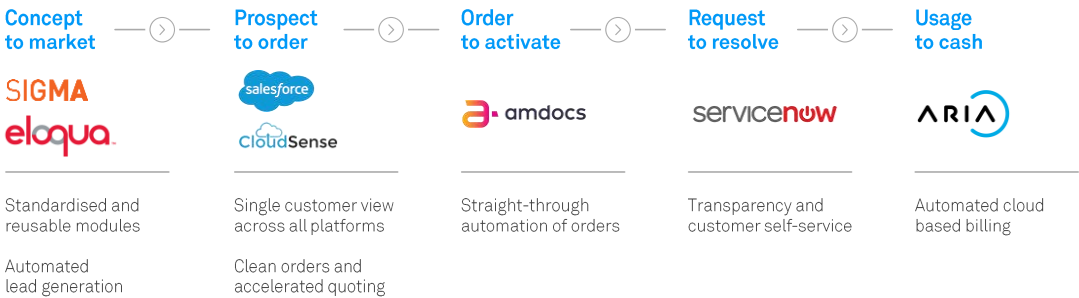
Brendon Riley



We continue to execute our Enterprise strategy to drive growth and differentiation







We have stood up a new digital core based on best-of-breed capabilities, very 'out-of-the-box' and focused on B2B needs



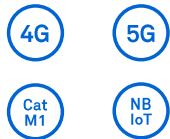
A single customer value chain driving a differentiated experience

We have launched high impact products designed to differentiate our core and create new revenue streams

<p>Next-gen UC</p>	<ul style="list-style-type: none"> Telstra Calling for Office 365 Liberate 		<p>Best Strategic Mobility Initiative awarded by BroadSoft for Liberate</p>
<p>Enterprise Mobility</p>	<ul style="list-style-type: none"> Mobile Managed Services Internet of Things 		<p>~30% YoY growth</p>
<p>Security</p>	<ul style="list-style-type: none"> Open MSS (Managed Security Services) Security Operations Centres 		<p>Frost & Sullivan Provider of the year AISA InfoSec Association Project of the Year</p>
<p>Software Defined Networks</p>	<ul style="list-style-type: none"> Telstra Programmable Network 		<p>>300 subscribed customers</p>

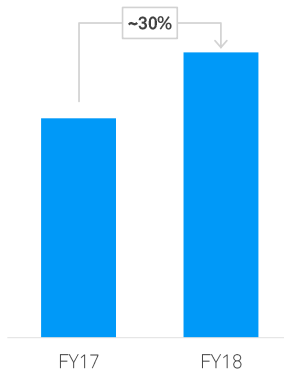
Our strong IoT business is scaling rapidly, driven by new use cases

Australia's largest IoT network

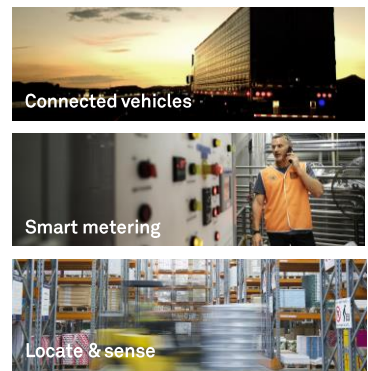


- ~3 million km² for Cat M1 devices
- Certifying devices and modules in 2-week sprints

~30% growth YoY

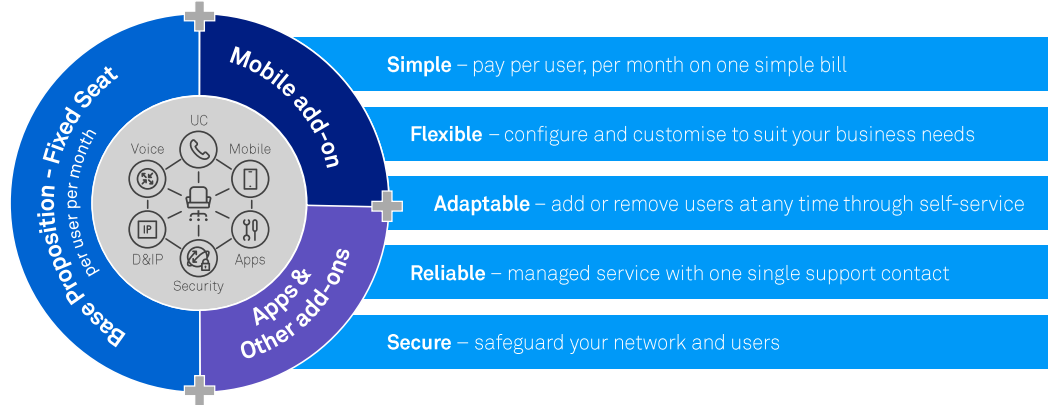


Prioritised verticals & use cases



We will soon launch a modular, per seat offer for smaller businesses with a transformed Telstra experience

Connected Workplace:



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Delivering a dramatically simplified, next generation service experience for businesses



Digitally enabled channels



- Optimise cost to serve
- Reach underserved segments
- Re-invigorate partner channel



Customer self serve



- Transparency at all stages of the customer journey
- Radically improved cycle times
- Choices for customer engagement



Digitised products



- Rationalised portfolio
- Modularity and re-use
- Faster, cheaper time to market

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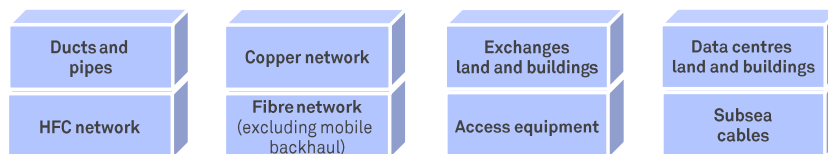
Pillar 2

Will Irving



Why establish Telstra InfraCo?

To maximise the value of our world-class fixed network assets:

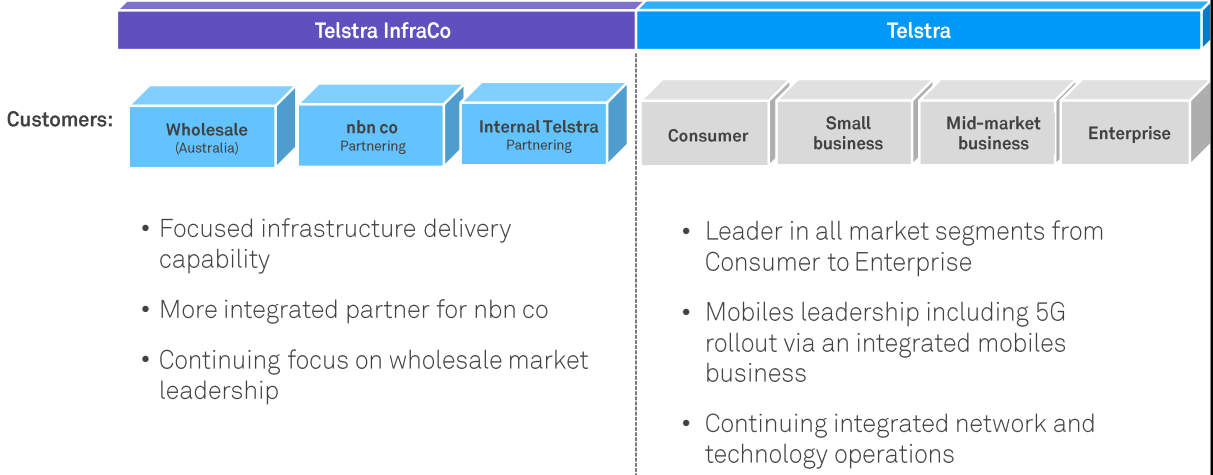


We are establishing a stand-alone business unit to:

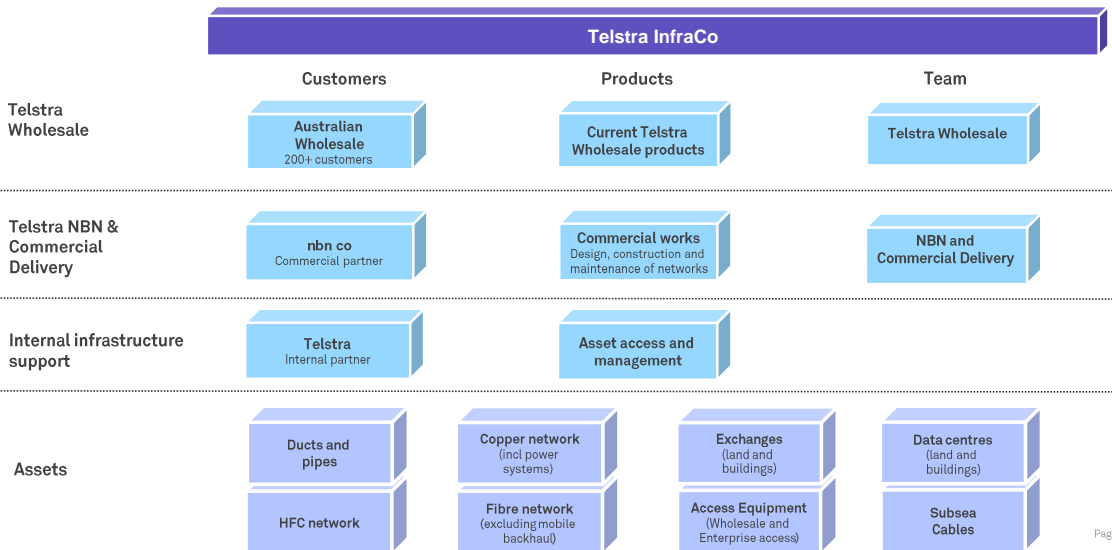
- Drive capital efficiency, including monetising assets
- Drive improved performance and productivity through focus
- Improve infrastructure delivery
- Provide greater financial transparency
- Create optionality for a demerger or entry of a strategic investor once the nbn network rollout is complete

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Customer benefits

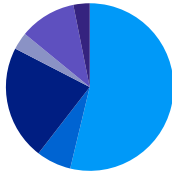


Telstra InfraCo



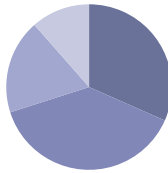
Telstra InfraCo indicative financial metrics

FY17 pro forma total assets¹
~\$11 billion



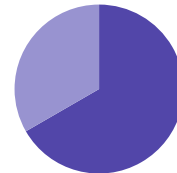
- Ducts, pipes and fibre
- Copper
- Exchanges
- Data centres
- Subsea cables
- Other

FY18 pro forma revenue^{2,3}
~\$5.5 billion



- Telstra Wholesale Customers
- Telstra internal access
- Commercial works for nbn co
- Recurring proceeds from nbn co

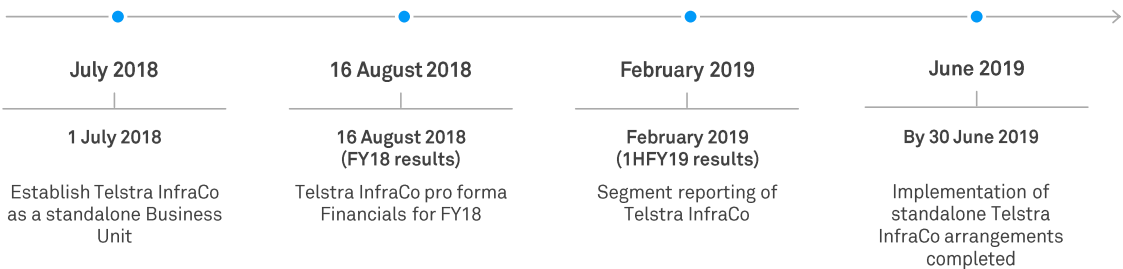
FY18 pro forma EBITDA^{3,4,5}
~\$3 billion



- Long term
- Legacy and nbn™ network rollout related

Notes: 1: Assets include material Property Plant and Equipment, pro forma based on FY17 statutory accounts. May change subject to final asset allocations; 2: Underlying pro forma InfraCo revenue estimate for FY18; 3: Excludes one-off nbn proceeds; 4: Underlying pro forma InfraCo EBITDA estimate for FY18. Note that legacy and nbn network rollout related revenues will decline substantially as the nbn rollout is completed; 5: Long-term comprises Telstra Infrastructure Asset Charges, recurring nbn proceeds and ongoing Wholesale products. Long-term EBITDA includes recurring nbn receipts, which are inflation linked over the next 30+ years

Telstra InfraCo implementation timeline



Pillar 3

Alex Badenoch



Simplify our structure and ways of working to empower our people and serve our customers



Simplify and flatten our structure and transform our operating model

- Create a leaner organisation supporting our productivity commitments



Scale up our shared services model to drive efficiency and effectiveness

- Supporting all Business Units and Telstra InfraCo through continuous improvement culture and mandate to drive simplified, lean processes



Elevate our organisational focus on product creation and innovation

- Enabling faster speed to market



Accelerate implementation of new ways of working that embed agile, DevOps, Lean and customer centred design

- Improve responsiveness to customer needs and employee experience

Today we are announcing two structural changes

 **Global Business Services**
Drives efficiency and effectiveness of our repeatable and back of house processes

- Shared service centre supporting all Business Units and InfraCo
- Continuous improvement culture and mandate to drive simplified, lean processes
- Established July 1

 **Telstra InfraCo**
Capital efficiency on infrastructure and wholesale relationships

- Transparency on infrastructure assets, incl. copper, fibre, data centres and exchanges
- End-to-end integration from infrastructure build and ownership, to wholesale sales
- Telstra InfraCo CEO will report to Telstra CEO and hold the nbn co relationship
- Established July 1 with ~3,000 employees

Further changes to our Operating Model will be announced in July and implemented October 1

Strengthen our execution and transform our employee experience

 **Global High Performance**
Lifting employee engagement to the global high performance norm by FY22

 **~1,500 new roles**
in areas of critical capability

 **~8,000_{NET}**
Employees and contractors reduction from radically simplified operations and new ways of working

 **~25%**
Reduction in executives and middle-management

 **Reduced time to market**
Feature and product enhancements delivered more quickly to customers

Telstra transitions



\$50m investment to support people through significant change

To support the Transition Program we intend to make available initial funding up to \$50m

Supporting employees leaving Telstra

- Enhanced outplacement services for our people leaving
- Online, group and individual support
- Post leaving Telstra support program – training, coaching, financial planning

Supporting employees on:

- Future career direction and choices
- Navigating career change - job search, resume, interview preparation

Supporting employees moving to new roles

- Reskilling program in 'priority skill areas'
- Remuneration and reward framework that reinforces target behaviours

Supporting employees on:

- New capabilities in agile and lean
- Reskilling people in 'priority skill areas'

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Pillar 4

Warwick Bray

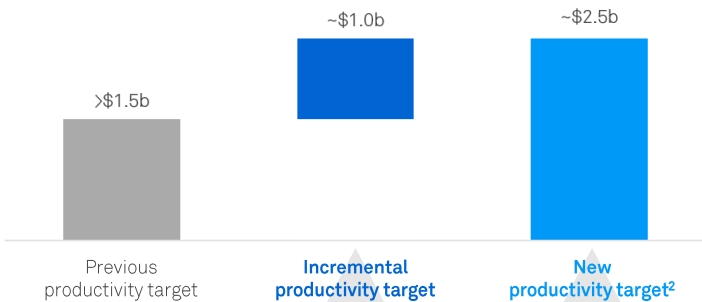


Telstra2022 Pillar 4

Strategic pillars	Industry leading cost reduction programme and portfolio management	
<ul style="list-style-type: none"> • Realise cost benefits through: <ul style="list-style-type: none"> • Fewer, simpler products • Leaner organisation • Digitisation and automation • Improve capital efficiency by continuing to simplify our portfolio and optimise the performance of our assets • Maintain balance sheet strength and financial flexibility 		

We are increasing our productivity target by \$1 billion to ~\$2.5 billion by end of FY22

Our productivity target – FY16-22

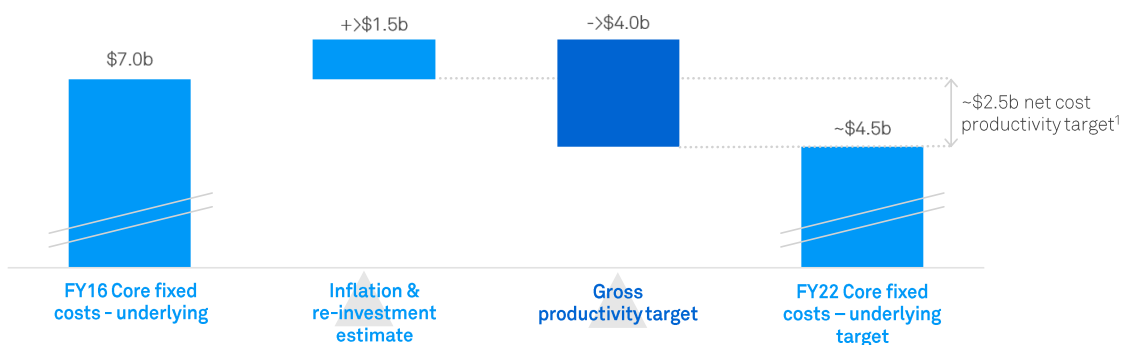


- FY18 to FY22 profile of productivity will be at least linear
- We expect to achieve ~\$700 million cost productivity by end of FY18¹
- We expect to achieve net cost productivity of more than \$1.5 billion by the end of FY20
- ~\$600m additional restructuring costs in FY19

1 FY18 cost productivity forecast of ~\$700m includes ~\$50m cost benefits from strategic capex.
 2 FY22 cost productivity target of ~\$2.5b includes >\$200m cost benefits from strategic capex.

Our ~\$2.5 billion net productivity target includes re-investment offset by >\$4 billion gross productivity

Gross vs net cost productivity – FY16-22



¹ FY22 cost productivity target of ~\$2.5b includes >\$200m cost benefits from strategic capex.

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We expect our total costs to be flat or decline each year with our productivity ultimately offsetting the CVC/AVC nbn costs

Costs	1H18 annualised ⁴	Outlook
Core sales costs¹	\$8.3b	
- nbn network payments	\$0.9b	Grow by >\$1.5b by end of FY22
- Other including COGS	\$7.4b	Manage by efficiency
Core fixed costs	\$9.1b	
- Underlying	\$6.4b	Reduce to ~\$4.5b by end of FY22 from \$7b in FY16
- NAS labour & corporate ²	\$2.7b	Target mid-teens NAS margins
New businesses costs³	\$0.3b	
One-off nbn DA and nbn C2C	\$0.6b	Removed post nbn network rollout
Total costs (guidance basis)	\$18.3b	Total costs expected to be flat or decline each year (excluding restructuring costs)

¹ Core sales costs excludes goods and services purchased associated with new businesses and nbn cost to connect (C2C).

² NAS labour & corporate includes significant transactions and events associated with NAS commercial works and labour, global connectivity costs including FX, Go Mobile Swap lease costs and bond rate impacts.

³ New businesses includes Telstra Health, Ooyala and Telstra Ventures.

⁴ 1H18 annualised represents 1H18 reported costs multiplied by two.

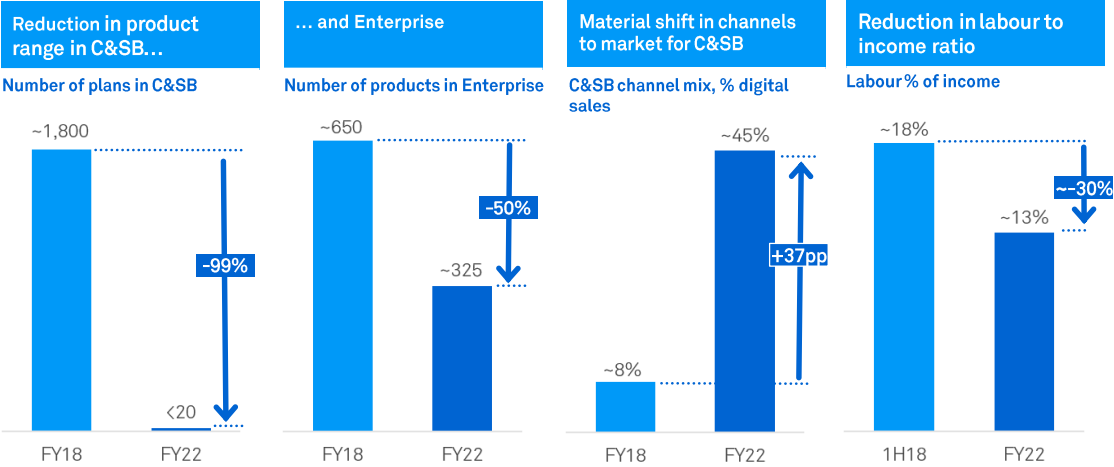
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Simplify the way we operate and interact with customers to reduce the overall cost of doing business

Productivity area ¹	
Fewer, simpler products	<ul style="list-style-type: none"> Simplification of products across C&SB and Enterprise to improve customer experience and reduce costs Reduce legacy product costs including decommissioning systems Simplify and standardise NAS products, sales and service
Simpler organisation	<ul style="list-style-type: none"> Organisation change to de-layer, de-duplicate and reduce demand Consolidate and streamline back-office processes into single services model Establish and implement Telstra InfraCo to achieve further efficiency
Digitisation and automation	<ul style="list-style-type: none"> Digitise C&SB and Enterprise sales and service, and reduce the number of calls Particular focus on fixed reseller cost to serve Straight through processing to increase customer right first time
Discretionary cost review	<ul style="list-style-type: none"> Further improve procurement including tendering, negotiating and contracting Further improve property utilisation

¹ Productivity areas are an extension to November 2016 Investor Day productivity framework. Productivity areas previously included product and process simplification, improving end-to-end customer experience, fitter & faster organisation and supplier partnerships.

This will transform the operating and financial profile of our business



We will simplify our portfolio and seek to monetise up to \$2 billion of assets by end of FY20¹



Monetise up to \$2 billion of assets by end of FY20¹:

- Further strengthen the Balance Sheet



Continue to improve capital efficiency:

- Post-nbn ROIC > 10%
- Underlying ROIC to improve from FY19 to FY22
- Continue to improve efficiency and effectiveness of working capital and capex

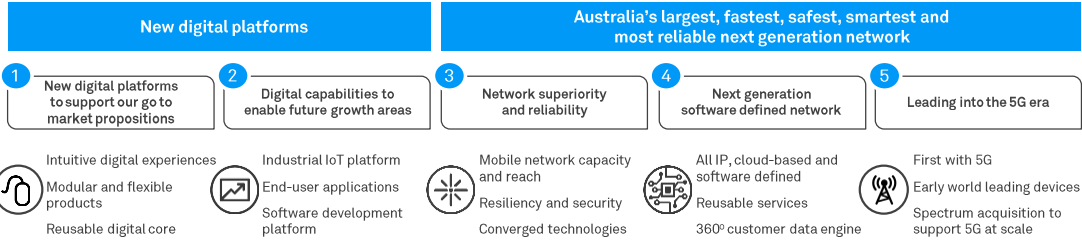
¹ Monetisation of assets subject to market conditions and availability of appropriate terms.

Enablers

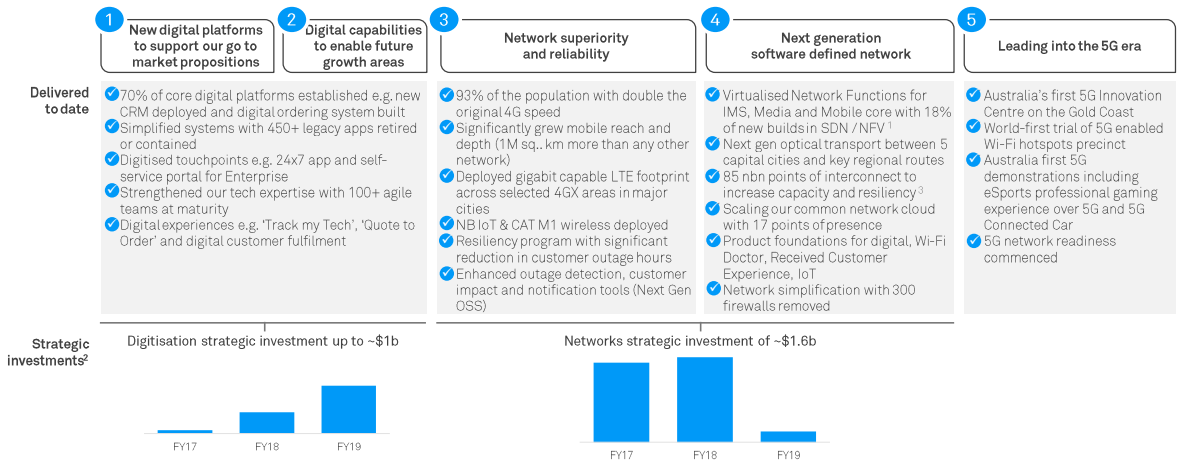
Robyn Denholm



Our new digital platforms and next generation network powers our strategy

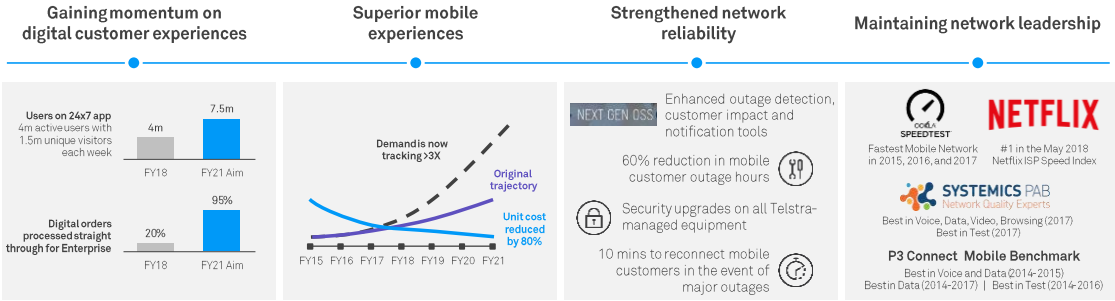


Our strategic investment of up to \$3bn has delivered strong foundations



¹ Software Defined Network/ Network Functions Virtualisation ² Strategic capital only, does not include BAU capex funded elements or program expenses ³ Planned for completion by 30th June 2018

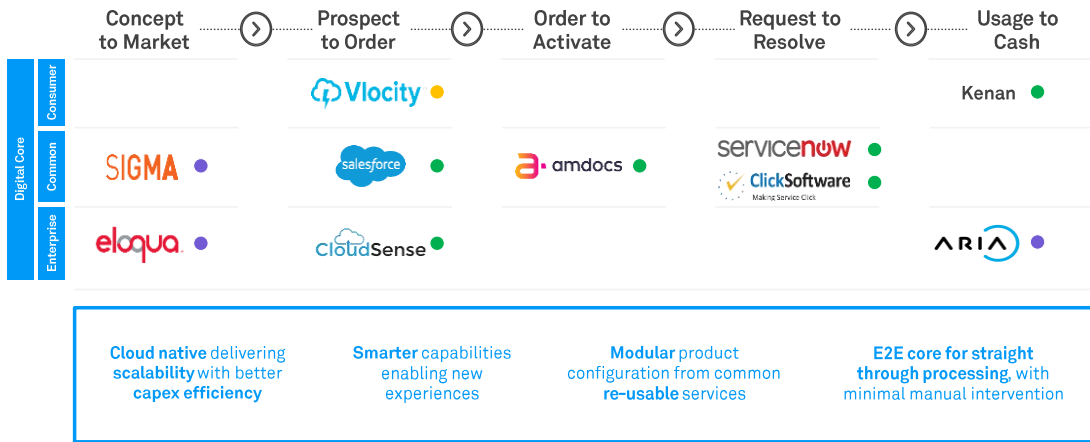
With tangible customer experience enhancements



- ✓ nbn assurance capability has removed ~500k customer calls and ~40k field visits
- ✓ Telstra Connect portal for Enterprise has delivered 40% reduction in calls¹
- ✓ Handling greater levels of customer usage efficiently through mobile technologies at a reduced cost per bit
- ✓ 2-year cross-company networks and IT resiliency program targeting highest customer impacting risks
- ✓ We are leading the market in network benchmarks

¹ Based on pilot customers

We have stood up a new digital core based on best-of-breed capabilities



Status

- In Production with further capabilities being added
- In Pilot
- Implementation in progress

We will lead the market in 5G

We are investing to ...



Transform our network economics

Delivers up to 10X capacity at lower cost per bit to handle exponential traffic growth



Deliver next generation customer experiences

Lead with early 5G use cases including targeted Fixed Wireless Broadband



Revolutionise industries

Pursue industry use cases exploiting high bandwidth and low latency communications for Industrial Internet

We have delivered...

Australia's first 5G Innovation Centre



World-first mm wave data call, 5G enabled hotspots precinct trial plus Connected Car

Australia's First eSports professional gaming experience over 5G @ 5GIC Southport



Coming soon ...

Network ready for 5G in H1 FY19

5G commercial launch in FY20

Spectrum acquisition to support 5G at scale

A national commercial deployment of 5G in major cities and high demand regional centres in FY20

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We are leveraging our combined network and digital capabilities

Enabling the next generation of connected experiences

Any product

Any segment

Any channel

Reusable capabilities

Take products and offers to market

Get customers connected and serviced

Personalising customer experiences



Modular product & flexible pricing



Faster to market and tailored



Network services



Resiliency & redundancy embedded



Seamless, simplified & faster activation



Self service tools for customers



Digital tools for employees



Preventative & proactive assurance



Secure & protected services



Insights for better experience



Big data and artificial intelligence

Common tech foundations

4GX, 5G

Programmable optical and transport

Virtualised network functions

Cloud infrastructure

Data & Analytics

Security & Identity

Customer Relationship Management

Customer Order Management

Customer Care

Billing

Software defined and programmable network

Digital core

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Financials

Warwick Bray



Agenda



Financial implications of strategy



Reconfirm FY18 guidance
FY19 guidance



Capital management framework

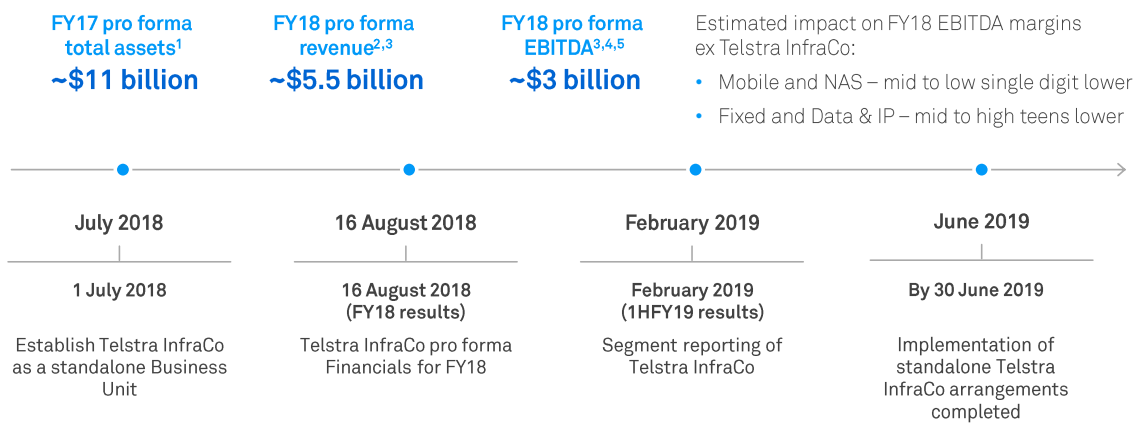


Financial implications of strategy

Strategic pillars	<ul style="list-style-type: none"> • Lead the market with simplified customer orientated charging • Telstra InfraCo pro forma statements and improved capital efficiency • ~\$2.5bn target reduction in underlying core fixed costs by end of FY22 • ~\$600 million restructuring costs in FY19 • Seek to monetise up to \$2bn of assets by end of FY20¹
Enabled by our \$3b investment program	<ul style="list-style-type: none"> • Achieve > \$500 million EBITDA benefits from up to \$3 billion strategic capex by end of FY21 • Potentially brings forward write offs of some software assets

¹ Monetisation of assets subject to market conditions and availability of appropriate terms.

Pillar 2: Telstra InfraCo pro forma statements and timeline



Notes: 1: Assets include material Property Plant and Equipment, pro forma based on FY17 statutory accounts. May change subject to final asset allocations; 2: Underlying pro forma InfraCo revenue estimate for FY18; 3: Excludes one-off nbn proceeds; 4: Underlying pro forma InfraCo EBITDA estimate for FY18. Note that legacy and nbn network roll out related revenues will decline substantially as the nbn roll out is completed; 5: Long-term comprises Telstra Infrastructure Asset Charges, recurring nbn proceeds and ongoing Wholesale products. Long-term EBITDA includes recurring nbn receipts, which are inflation linked over the next 30+ years

Our financial strategy supports our Telstra2022 strategy



Grow our underlying businesses



Lead the market with simplified customer orientated charging

Mobile
Fixed and nbn reseller
NAS and Data & IP



Reset the cost base



~\$2.5bn target reduction in underlying core fixed costs by end of FY22

Manage COGS through margin efficiency
Manage efficiency of capital spend



Deliver returns on our capital investments



Spectrum auctions
Achieve > \$500 million EBITDA benefits from strategic capex by end of FY21
Improved capital efficiency through Telstra InfraCo
Seek to monetise up to \$2bn of assets by end of FY20¹



Manage timing and conversion of cash



We continue to manage the efficiency and timing of converting EBITDA to cash and EPS



Fiscal discipline – Capital Management Framework



Maximising returns for shareholders
Maintaining financial strength
Retain financial flexibility
Manage business for ROIC

¹ Monetisation of assets subject to market conditions and availability of appropriate terms.

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No change to FY18 guidance post May trading update¹

Measure	FY18 guidance As updated 1 Dec 2017 and post 14 May 2018 trading update
Total income	Middle of \$27.6b to \$29.5b
EBITDA	Bottom end of \$10.1b to 10.6b
Net one-off nbn DA receipts less nbn net C2C	Mid to upper end of \$1.4b to \$1.9b
Capex	Mid to upper end of \$4.4b to \$4.8b
Free cashflow	Top end or moderately above \$4.2b to \$4.7b

FY18 total dividend expected at 22 cents per share, fully franked, including ordinary and special, in accordance with our dividend policy announced August 2017²

¹ This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017. Capex excludes externally funded capex.

² Return subject to no unexpected material events, assumes the nbn™ rollout and migration is broadly in accordance with management's current best estimates, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.

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FY19 guidance¹

Measure	FY19 guidance Based on current accounting standards
Total income	\$26.6b to \$28.5b
EBITDA excluding restructuring costs	\$8.7b to \$9.4b
Net one-off nbn DA receipts less nbn net C2C	\$1.8b to \$1.9b
Restructuring costs	~\$0.6b
Capex	\$3.9b to \$4.4b
Free cashflow	Update in August

¹ This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout and migration in FY19 is broadly in accordance with management's current best estimates and may be updated for any material changes, including after taking account of the nbn Corporate Plan 2019 when it is published. The guidance is provided on a consistent basis with FY18 accounting standards. Guidance will be updated during FY19 to be consistent with IFRS15 under which we will report FY19 results. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex.

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FY19 underlying EBITDA

Influences on FY18 underlying EBITDA are expected to continue in FY19 including:



Ongoing intense competition. We expect overall FY19 market mobile and fixed revenue to be down 2-3%



Further impact from the rollout of the nbn



Expected decline in mobile EBITDA given ARPU trends and potential impact from 4th entrant



Increased cost productivity aspirations



Impact of Telstra2022 initiatives on mobile legacy profits

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Capital management framework

Fiscal discipline			
Objectives	Maximising returns for shareholders	Maintaining financial strength	Retain financial flexibility
Principles	<ol style="list-style-type: none"> 1. We remain committed to retain balance sheet settings consistent with an A band credit rating 2. Pay fully-franked ordinary dividend of 70-90% of underlying earnings^{1,2} 3. Target capex/sales ratio of ~14% excluding spectrum from FY20^{4,5} 4. Maintain flexibility for portfolio management and to make strategic investments 		
Return in the order of 75% of net one-off nbn™ receipts to shareholders over time via fully-franked special dividends ^{2,3}			
Capex/sales ratio ^{4,5} of 16% to 18% in FY19			

1 Underlying earnings is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 2).
 2 "net one-off nbn™ receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
 3 Return subject to no unexpected material events, assumes the nbn™ rollout and migration is broadly in accordance with management's current best estimates, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.
 4 Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex.
 5 The guidance also assumes the nbn™ rollout and migration in FY19 is broadly in accordance with management's current best estimates and may be updated for any material changes, including after taking account of the nbn Corporate Plan 2019 when it is published.

Closing remarks

Andrew Penn



A new plan

Strategic pillars	Radically simplify our product offerings, eliminate customer pain points and create all digital experiences	Establish a standalone infrastructure business to drive performance and set up optionality post the nbn rollout	Greatly simplify our structure and ways of working to empower our people and serve our customers	Industry leading cost reduction programme and portfolio management		
Enabled by our \$3b investment program	New digital platforms					
	Australia's largest, fastest, safest, smartest and most reliable next generation network					
Delivering	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of \$2.5bn by FY22	Post-nbn ROIC > 10%



Q&A



Glossary

ARPU	Average revenue per user	DAs	Definitive Agreements (nbn co)	NAS	Network applications and services
AVC	Access virtual circuit	DevOps	Development operations	NB	Narrowband
B2B	Business to business	E2E	End to end	Next-gen UC	Next generation unified communications
C&SB	Consumer and Small Business	EBITDA	Earnings before interest, tax, depreciation & amortisation	NPS	Net promoter score
C2C	Cost to connect	EPS	Earnings per share	ROIC	Return on invested capital
CAT M1	Category M1	FTE	Full time equivalent	SDN/NFV	Software defined networking/Network functions virtualisation
CVC	Connectivity virtual circuit	IMS	IP Multimedia subsystem	SLAs	Service Level Agreements
COGS	Cost of goods sold	IoT	Internet of things		
CRM	Customer relationship management	LTE	Long term evolution		

ANDREW PENN – CEO

Slide– Introduction

Good morning and welcome to our investor briefing.

Slide – Story Old to New

For 100 years, Telstra has been at the forefront of connecting Australia and Australians to each other and to the world. There have been significant moments in our history. Many that have shaped who we are and many that have helped create the fabric of our nation.

From the beginning, in the late 1800s with the first overland telegraph, we have connected people - firstly with fixed lines, then with mobile, then to the internet and now we are connecting things. And in that time we have confronted many challenges.

It is clear that today we are at another important point in our history. And at moments like this, critical inflection points we have a choice as to how we respond. As Telstra has always done, we are choosing to lead.

Today, we are outlining a new strategy Telstra2022 because this is the year in which the nbn will be rolled out, 5G will be at scale and the Internet of Things will be pervasive in our homes, businesses and communities.

This strategy is built on the foundation of Telstra being the undisputed leader in Australian telecommunications with unrivalled and trusted consumer and enterprise relationships built over more than a century.

We have state of the art assets, expansive scale and a global network footprint. We have a customer base that continues to grow, a strong enterprise business, the best infrastructure in the country and a strong balance sheet and we never take these strengths for granted.

The strategy is also built on the critical strategic investments we have been making through the \$3bn investment program that we laid out for the market a little over 18 months ago. Without these investments what we are announcing today would not have been possible.

We will simplify our products, our services and our operations, we will improve customer experience and reduce our cost base further. We intend to transform the nature of telecommunications products and services and remove pain points and frustrations that have annoyed Australians for so long.

I know you may feel we have said this before and that may be true. We have been transforming the business but at the same time managing our existing legacy and established profit pools. It is difficult to do both as many telecommunications companies around the world have found.

But our legacy is now holding us back. It is time to take a bolder step and leave the past behind.

We are at a tipping point. A moment in time where we must be more ambitious to meet the challenges head on. For Telstra this means that we need to be more prepared to disrupt ourselves than ever before. That is what Telstra2022 is all about.

The telecommunications industry is going through a very dynamic and challenging time. Possibly the most significant in decades, if not in its history.

While many of the dynamics that are playing out in the market today were predictable, it is their intensity and depth of impact that is accelerating our need for change.

The origins of many of these challenges point back to the nbn. We are no longer the wholesale fixed line provider in Australia and ultimately we lose our legacy wholesale business.

Additionally, with nbn driving a doubling of wholesale prices, Telstra and the other industry participants are facing a fixed line market where reseller margins are rapidly going to zero.

This has also led to increased competition in mobiles and the entrance of a fourth operator.

I want to acknowledge that it has also been a challenging time for our investors and we have listened carefully to your feedback.

Today we will demonstrate how our strategy addresses the market challenges and we are confident that the plans that we have been working on for the last 12 months will deliver a radically different Telstra.

Slide - Telstra22

Through this strategy.

- We will reduce the number of consumer and small business plans from 1800 to 20.
- We will also migrate all of these and plans and 50% of enterprise plans to completely new technology stacks within three years and leave the legacy behind.
- We will establish a standalone infrastructure business unit to drive improved performance and create optionality for the future including a potential demerger or the entry of a strategic investor post the roll out of the nbn.
- We will reduce 2-4 layers of management across the company.
- We will eliminate the need for one third of customer service calls within 2 years and two thirds by FY22.
- We will lead in all key industry surveys for network performance.
- We will increase our productivity program by a further \$1bn to \$2.5bn.
- And we intend to monetise up to \$2bn in assets over the next 24 months to strengthen the balance sheet.

These are just some of the benefits from the program and we will be reporting on these key deliverables and milestones along the way.

Slide – Telstra2022 Plan on a Page

Our strategy has 4 pillars, 4 strategic pillars that will be the priority of our business over the next 3 years.

- Radically simplifying our product offerings, eliminating customer pain points and creating all digital experiences.
- Establishing a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout.
- Greatly simplifying our structure and ways of working to empower our people and serve our customers
- And delivering industry leading cost reduction programme and portfolio management.

These 4 pillars are underpinned by two critical enabling capabilities that we have been investing in through our strategic investment program over the last two years. I would like to underline that without these investments our strategy would simply not be possible.

- Firstly, new digital platforms
- And secondly, Australia's largest, fastest, smartest, safest and most reliable next generation network.

Our strategy has 6 key goals with tangible and clear milestones to which we will hold ourselves to account and that will provide transparency on our progress.

These cover customer experience, simplifying our business, network superiority, our people, cost improvements and strengthening our balance sheet.

The strategy will deliver benefits for all stakeholders, for our customers, for our shareholders, and for our people and it will ensure that Telstra remains Australia's premium and most trusted brand in telecommunications.

In making these changes we are acutely aware of the role we play in connecting all Australians, and the investment and technology contribution we make to the broader community, to regional Australians and to serving the needs of our vulnerable customers. Australia needs a strong Telstra contributing to the broader national economy.

Let me reassure you. Telstra's longstanding commitment to regional Australia is unwavering. Only last year we announced we would spend up to an additional \$1 billion in regional Australia with our partners over five years, including the delivery of more than 650 sites under the Federal Government's Mobile Black Spot Program. This will continue.

The changes we are making are designed to set us up to continue to make strong contributions to communities and economies right across the country for the long-term.

Slide - Agenda

Today you are going to hear a lot more about our strategy from the team. You will hear from:

- Vicki and Brendon in relation to our new approach for customers.
- Will in relation to our Infrastructure Business.
- Alex in relation to our structure and operating model.
- Robyn in relation to our enabling capabilities.
- And Warwick in relation to our productivity initiatives and the other financial implications.

We propose to present the full strategy to you before opening up for Q&A at the end of the morning.

Slide – Technology Showcase

At 10:30am we will be taking a break during which I will invite you to view a number of showcases that we have set up in the CIC which you passed as you came in.

These address respectively:

- The state of technology development in 5G;
- Our progress in relation to digitising the business;
- How we are working with businesses on the Internet of Things opportunities; and
- How we are innovating with our partners.

Before I hand over to the team, I would like to make a few extra comments myself in relation to the strategy.

As I mentioned in my opening our strategy has 4 key pillars.

Slide - Pillar 1

The first pillar is to radically simplify our product offering and eliminate customer pain points. We will drive growth in our business by delivering the next generation of connected experiences for our customers. We are creating simple, flexible ways for customers to choose the best value connectivity, devices and services for their household and business.

Our collective dependency on connectivity today is greater than it has ever been and it is only going to increase in the future. At the same time, customers continue to be frustrated with the complexity of

plans telecommunication companies provide today. Customers want them to be simple, easy and digital with certainty on what they are going to be charged.

As an industry we have failed to deliver on this. It is not an easy challenge because today's telecommunications technology is complex. But this is the challenge we must meet.

Customers will start to benefit from this simplified approach in a few weeks when we launch peace of mind data across a range of new post paid mobile plans making excess data charges a thing of the past. Four more major product and service experiences will be progressively announced in the lead up to June 2019.

Two years ago we announced we would increase our capital investment in the business by up to \$3b over the 3 years to 30 June 2019 - to build the capabilities that we would need for the future. Part of this investment has been in designing and building new technology stacks which will support a migration to a new world of products and services for our customers.

Robyn will talk more about the underlying digital capabilities later, but they will enable us to simplify our products to remove customer pain points and deliver an effortless digital experience with simpler modular solutions for customers.

For Consumer and Small Business we expect to have all new plans in this model and on the new technology by 30 June 2019. We will then use the momentum in the business to drive growth in these new services.

We will also systematically migrate customers from existing legacy plans as they come to end of contract such that we will have all customers and plans in the new world by 30 June 2021.

This will deliver a much improved experience for our customers and massive simplicity to the business. We expect the number of customer plans to reduce from 1800 to 20.

For enterprise customers we are already in market with many elements of our technology platform. This is delivering new digital experiences today such as the Telstra programmable network, our new unified comms product Liberate and Telstra Connect enabling our customers to manage their services digitally.

We plan to accelerate the migration to this new world for our Enterprise customers reducing the number of plans by more than 50% within three years. This will also open up new opportunities for growth and Brendon is going to talk about two in particular:

- A new on demand subscription based communication solution to the mid-market that we will launch in the first half of the 2019 financial year.
- And significant opportunities in IoT where we are already making strong progress.

In making these changes, it is clear we have to change aspects of our economic model. Customers are frustrated with the many out of bundle charges they experience today. They want simpler, easier to understand plans. This means we must leave behind fees that the industry has historically charged.

This comes at considerable cost as ultimately we expect more than \$500m of historic revenues to be eliminated from the business over the next three years.

However, we believe this will be more than offset by an increase in the number of services per customer and the benefits of an improved customer experience as well as massive simplification across the business.

The current model of telecommunications products and services in Australia is unsustainable. As an industry we must change and Telstra intends to lead the way.

Slide - Pillar 2

Let me turn to the second pillar of our strategy.

Two years ago we commenced a project to monetise the payments we were receiving from the nbn for access to our infrastructure. Fundamentally what stood behind this initiative was a belief that our telecommunications infrastructure assets were the most valuable in the country.

With the increasingly important role that telecommunications is playing today, that value is only increasing. We have continued to look at ways in which we can maximise this value and make it transparent to you while creating efficiency and optionality in the business.

We are announcing today that we will be establishing a wholly owned standalone infrastructure business unit with its own CEO reporting to me.

This business will comprise Telstra's high quality fixed network infrastructure assets including data centres, domestic fibre, international subsea cables, exchanges, poles, ducts and pipes.

It will provide access to these assets to Telstra through commercial arrangements to drive efficiency and transparency.

It will comprise Telstra's commercial work activities and existing Telstra wholesale business. It will also continue to provide services to nbnco and it will have an initial total workforce of more than 3,000.

It is expected that the business will control assets with a book value of approximately \$11b, annual revenues and EBITDA of approximately \$5.5b and \$3b respectively.

The business will not include the mobile network assets including spectrum, radio access equipment, towers and some elements of backhaul fibre. These will remain integrated in Telstra's core customer segment focused business to enable us to effectively manage our strategic differentiation in the market. This will be crucial for our 5G strategy.

The initial steps for the establishment of this business have already been undertaken. We will be providing proforma financials today and update these with our FY18 result.

We will have full segment reporting in the FY19 half year results and be in full operation by 30 June 2019.

By creating this new infrastructure focused business we will better optimise and manage our valuable fixed infrastructure assets. It will also facilitate significant optionality for Telstra in the future particularly when the nbn rollout is complete.

Slide – Pillar 3

Let me now turn to the third pillar of our strategy which is to simplify our structure and create an agile environment for our people to better serve our customers.

Our progress on this journey is well advanced. We are already implementing new ways of working such as Agile across the business. We have rolled out the extensive use of lean for process re-engineering, DevOps in IT and human centred design in marketing and product development.

We propose to further accelerate the adoption of these methodologies which are the hallmark of successful customer centric companies.

We are also in the process of making a number of organisational changes to our structure. In addition to the creation of a new infrastructure business announced today, we are establishing Telstra Global Business Services as a point of consolidation for all of our large scale back of house processes and functions. Its focus is to build scale and reduce costs for large repeatable activities.

We will make further announcements in the coming weeks regarding key executive appointments to lead these new activities and other flow on structural changes.

We also intend to elevate our focus and capabilities in product development and management across the company.

Collectively these changes will enable us to flatten the organisational structure and improve the operating model of the company. Through these changes we expect to reduce 2-4 layers of management.

Telstra's strategy is premised on the benefits to customers of market leading simplified and digitised products and services for all Australians. This in turn will facilitate significant simplification and cost reductions. This simplification is critical to Telstra's competitiveness and we expect it to lead to a 30% reduction in our labour costs.

This will have an impact on jobs at Telstra and while we expect to create up to 1,500 new roles within the company, we expect a net reduction of 8,000 jobs over the next 3 years including Telstra employees and contractors.

I am acutely conscious the impact the loss of jobs has on our people and society. I am also acutely conscious of the uncertainty that this announcement creates. But, I need to be upfront and transparent about the scale of the change needed at Telstra and what this means.

Improving the service that we provide to our customers, improving the efficiency of the business, improving our competitiveness of the company means we also have to reduce our costs.

At the same time if we are to grow the company over the longer term, create new positions, new and exciting opportunities we have to respond to the market dynamics and their negative impact on the company today.

Recognising the very significant impact that these changes have on our people, we are also announcing transition programs which will focus on supporting our people. The first is to assist people whose roles will no longer be required through enhanced outplacement support including training and coaching, access to financial planning, post employment and other support.

The second will provide support to employees to upskill and transition to new ways of working in a leaner, more agile Telstra. To support the transition programs we intend to make available initial funding up to \$50m.

It is our commitment to do everything that we possibly can to mitigate the impact on our people and provide them with as much support as possible during the transition.

Let me now turn to the final pillar of our strategy.

Slide - Pillar 4

Two years ago we re-focused our strategy to ensure that all new investments were focused on products and services close to the core of our business. Since then we have made decisions not to pursue international consumer opportunities such as in the Philippines, to sell our investment in AutoHome for \$2.4b, to restructure our investments in Foxtel, streamline our Health business and completely restructure and exit underperforming aspects of the Ooyala business.

We will continue to look for ways to streamline our business and improve efficiency and through this work we intend to monetise assets of up to \$2b over the next 2 years.

This will help us to further strengthen our balance sheet.

In addition, the first three pillars of our strategy enable us to increase the target for our productivity programme by a further \$1b to \$2.5 in core non DVC cost reduction by FY22. This equates to a reduction of almost 50% in our fixed costs after taking into account the impacts of inflation and growth.

Through this work we also expect our total costs to remain flat or decline meaning that we will absorb the full weight of the CVC/AVC costs that we will incur in the migration to nbn.

So these are the 4 pillars of our Telstra2022 strategy.

Slide – Telstra2022 Enablers

I again want to be clear, they would not have been possible without the investments that we have been making under our strategic investment program - in our new technology stacks and in building the capacity and capabilities under The Network 2020 program. You will hear more about these from Robyn later this morning.

In the meantime I wanted to make some comments specifically in relation to 5G.

Slide – Leading with 5G

The migration of the industry to 5G will be a profound technology transition. It is not just that we are moving to a new G, it is that we are moving to a new G at the same time as two other very significant technology innovations:

- Firstly software defined networking and network function virtualisation are changing the way telecommunication networks are architected and operated.
- Secondly significant advancements in computing capability and the development of advanced algorithms are leading to sophisticated data analytics and machine learning.

It is the combination of these two innovations as we transition to 5G and the evolution of the world of the Internet of Things, that will transform the telecommunications industry and support significant economic growth across many industries over the next decade.

When we reflect on the G's through the last 20 years, what has driven our success has been our ability to lead early and be ahead of the competition. This G will be no different.

We intend to rollout 5G in three phases.

Phase 1 is the period we are in right now which is characterised by pre 5G technical standards and early launch. Mainstream compatible 5G handsets are unlikely to be available until late 2019 and into 2020. In the meantime there will be use cases for early 5G adoption the most significant of which will be fixed wireless.

Currently around 15% of homes in Australia choose to have no fixed broadband service and we can see a situation where this increases a further 10-15 percentage points.

We already have a number of offerings in the market for our customers who choose to have a wireless only solution as do other mobile operators. 5G will open up new opportunities and new markets in this regard. We have rolled out significant core capacity to support this and we will have the products and services to support these customers as we compete in the mobile sector.

Notwithstanding this and as you have heard me say before, 5G will not replace the nbn. The volumes of data on fixed networks exceed those on mobile by more than 50 times and whilst 5G will create a number of options for customers who choose to go wireless, it will not be for everyone.

Phase 2 of the 5G rollout will address the mainstream market as handsets become available. 5G is critically important as it will enable us to drive down the cost per gigabyte of data as technology innovation improves speeds and capacity. In this regard therefore we will roll out 5G fast and extensively as it becomes available.

Phase 3 of 5G will comprise the longer term opportunities for growth, many of which have not even been identified yet. We have already laid very substantial foundations in the Internet of Things and connected solutions which are the early use cases that we have deployed on 3G and 4G. These are a precursor to the long term growth opportunities that will exist.

As every business, in every industry, in every sector looks to improve the efficiency and effectiveness of their operations through the use of technology - many of these solutions will ultimately be connected via Internet of Things solutions. Whether it's in mining, agriculture, logistics, healthcare and even for consumers as you will hear from Vicki later.

That is why we have the largest IoT platforms in the country in both narrowband and CATM1 technology.

We intend to lead in 5G and we intend to win in 5G. We will have more to say on this at a 5G strategy day we are planning in the second half of this calendar year.

Slide – Telstra2022 Will Deliver 6 Key Outcomes

Finally as I said in my opening, our Telstra2022 strategy has 6 key goals with tangible and clear milestones to which we will hold ourselves to account. These will provide transparency on our progress.

They cover customer experience, simplifying our business, network superiority, our people, cost improvements and strengthening our balance sheet.

The strategy will deliver benefits for all of our stakeholders, for our customers, for our shareholders, and for our people and it will ensure that Telstra remains Australia's premium and most trusted brand in telecommunications.

We will measure our progress and hold ourselves accountable with key milestones along the way.

Let me summarise before I hand over to Vicki and Brendon to take you through the first pillar of our strategy in more detail.

Slide – Plan on a Page

As I said in my opening, we have listened to your feedback and our strategy addresses this head on.

It is our strategy to lead the market.

By delivering the next generation of connected experiences for our customers, by simplifying our product range, by removing customer pain points and by migrating all of our customers to the new world and leaving the legacy behind.

By maximising the value of our infrastructure by creating and operating it through a standalone, wholly owned and controlled business unit with optionality for the future.

By simplifying our structure to create an agile environment to better serve our customers and by building competitive advantage by resetting our economic model to drive further significant cost reduction.

We have been investing wisely which is why we are already well advanced in the underlying capabilities we need to deliver. With digital platforms that will enable our growth and Australia's largest, fastest, safest, smartest and most reliable next generation network.

Slide – Future

Transforming a company needs a clear strategy, a willingness to invest, tenacity to stay the course and a team who can lead through change and disruption.

Because today customers have many choices and their expectations are high. They need seamless, secure connectivity wherever they are. They demand privacy, security and transparency in their relationships with corporate Australia.

Above all else, customers choose to spend their money with companies who put exceptional customer experience at the heart of everything they do and who are willing to take risks to innovate and lead.

Our employees need to be equipped with state of the art technology and trained in new ways of working that are agile and enable us to execute at speed.

Our shareholders expect us to deliver growth while leading the market.

As we move into executing our plan I feel both challenged and invigorated at the same time.

I look forward to answering your questions at the end of the morning. Let me now introduce you to Vicki and Brendon who will take you through Pillar 1 of our strategy in more detail.

WARWICK BRAY – CFO

Slide – Telstra2022 Pillar 4

Good morning.

Through this initiative we will implement industry leading cost and portfolio management.

Slide – We are increasing our productivity target by \$1 billion to \$2.5 billion by end of FY22

We previously committed to more than \$1.5 billion of net cost productivity by FY22.

We have been successfully executing against this target since FY16. Indeed, we brought forward and increased the target in August 2017.

Today, we are again increasing our net cost productivity target by \$1 billion to \$2.5 billion to be delivered by the end of FY22.

Our target is equivalent to an 8% annual reduction in underlying core fixed costs from FY18.

Our new target is significant and is at the upper end of what global peers have delivered in similar time periods.

We are on track to achieve approximately \$700 million of productivity by the end of FY18. We expect to increase our momentum with \$1.5 billion to be delivered by FY20.

To support our increased target, we expect approximately \$600 million of additional restructuring costs in FY19.

Slide – Our ~\$2.5 billion net productivity target includes reinvestment offset by >\$4 billion gross productivity

We measure productivity as the reduction in reported net underlying core fixed costs.

In order to achieve our \$2.5 billion net cost productivity target, we estimate that we need more than \$4 billion in gross productivity by the end of FY22 to offset inflation, re-investment and other underlying core cost growth such as increased power costs.

This means that after inflation and re-investment, our gross cost productivity target is expected to almost halve our underlying core fixed costs to approximately \$4.5 billion by the end of FY22.

We are targeting to achieve this productivity while supporting improved customer experience and five times growth in FY16 fixed and mobile network traffic by FY20.

Slide – We expect our total costs to be flat or decline each year with our productivity ultimately offsetting the CVC/AVC nbn costs

We expect total costs to be flat or decline each year excluding restructuring costs. Cost productivity is expected to ultimately offset increased CVC/AVC nbn costs.

Looking at each of our cost categories.

Within core sales costs, network payments to nbn will increase as customers are progressively connected.

We will also continue to progress cost efficiencies to improve other gross contribution margins. For example, our simplification initiatives will aim to reduce handset subsidies.

Within core fixed costs, we are committed to a \$2.5 billion reduction.

We manage NAS labour costs through the NAS margin – we are targeting mid-teens NAS margins at maturity.

One-off nbn DA costs will reduce to zero post the nbn rollout. In the interim, we are reducing the nbn cost-to-connect and improving the customer experience.

Slide – Simplify the way we operate and interact with customers to reduce the overall cost of doing business

Our company-wide productivity program will simplify the way we operate and interact with customers to reduce our costs.

Our productivity program has overall company support with implementation owned by line divisions, not a central function.

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

The program has four main elements consistent with that theme:

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

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

Third, we are digitising and automating sales and service channels. With increasing customer preference for digital channels, and by enabling straight through processing, we can improve the customer experience and reduce service costs such as calls. We will, in particular, improve our fixed reseller cost to serve by operating on a new digital stack. This will eliminate costs that support legacy systems and processes and provide us with a leading and competitive cost structure.

Finally, our discretionary cost review program is targeting reduced operating costs by tightening business policies across procurement, property utilisation and discretionary costs such as transport.

Slide – This will transform the operating and financial profile of our business

Our productivity program will transform the operating and financial profile of our business. For example, we are targeting a 30% improvement in our labour costs to income ratio.

Slide – We will simplify our portfolio and intend to monetise up to \$2 billion of assets by end of FY20

We intend to monetise up to \$2 billion of assets by the end of FY20 to further strengthen our Balance Sheet. We will make more specific announcements on monetisation at our regular results announcements.

Our strategy is expected to deliver a post nbn Return on Invested Capital greater than 10% with underlying ROIC expected to improve from FY19 to the end of FY22.

As we discussed in November our long term corporate ROIC will depend on:

- A mix effect where our higher ROIC products such as fixed voice are currently in decline,
- The nbn which will reduce the ROIC of our fixed line business, and
- The development of other product ROIC for instance NAS which is improving.

We manage our ROIC through capital allocation and through improving capital effectiveness and product returns.

We are aiming for ongoing improvements in capital and working capital efficiency.

For example, on working capital we have recently changed standard payment terms with our largest suppliers to bring us in line with industry peers.

We have further increased the precision with which we forecast and match handset inventory to demand.

And we have moved to a Vendor Owned Inventory model with select suppliers where they retain ownership of inventory up to the point of dispatch from our distribution centres. This initiative has improved our cash cycle by one to two days.

On capex, we have consolidated the number of vendors providing IT integration testing from 3 to 1 enabling us to reduce costs

We have further improved our matching of software licences with internal demand.

And we have also centralised our data warehouse teams in Telstra Operations enabling us to remove duplication and reduce capital costs.

In summary, today we have announced an industry leading cost reduction program. We have increased our cost out ambition by \$1 billion with \$2.5 billion targeted by the end of FY22. We will achieve cost benefits through fewer, simpler products, a leaner organisation, and through digitisation and automation.

We will also simplify our portfolio and seek to monetise assets of up to \$2 billion by the end of FY20.

Thank you. I will hand to Robyn.

Financials

Slide – Agenda

Thank you Robyn. Before Andy's closing remarks, I will cover financials from today's strategy update.

- Firstly, a summary of the financial implications of our strategy,
- Secondly, reconfirm FY18 guidance and provide FY19 guidance including financial influences, and
- Finally, our Capital Management Framework.

Slide – Financial implications of strategy

The financial implications of the strategy are shown on this chart.

Through Pillar 1 we will lead the market with simplified customer orientated charging.

By choosing to lead the market and simplify the charging model for our customers, we expect to accelerate the decline of more than \$500 million worth of traditional out of bundle revenue in the next three years.

Over time, our intent is to offset this reduction through an increase in the number of services per customer, and benefits from an improved customer experience and simplification.

Through the establishment of Telstra InfraCo as a new business unit, we will improve capital efficiency and create future flexibility. I will make more comments on InfraCo on the next slide. We will also gain efficiency benefits through the establishment of Global Business Services.

All elements of the strategy support our productivity. We are increasing our productivity target by \$1 billion to \$2.5 billion by the end FY22. This will be supported by approximately \$600 million of additional restructuring costs in FY19.

We will also seek to monetise up to \$2bn of assets by the end of FY20 to strengthen the Balance Sheet.

Through our network and digitisation enabling capabilities, we are on track to achieve more than \$500 million EBITDA benefits from our up to \$3 billion strategic capex by FY21.

Our strategic program of additional investments has been necessary to implement our new strategy, empowering us to simplify our business and increase our differentiation.

This investment potentially brings forward write offs of some software assets. I will give more detail on depreciation at our full year results announcement in August.

Slide – Pillar 2: Infra Co pro forma statements and timeline

We expect that Telstra InfraCo will control assets with a book value of approximately \$11 billion and annual FY18 pro forma revenue and EBITDA to be about \$5.5 billion and \$3 billion respectively.

In our results announcements we will report product EBITDA margins with and without Telstra InfraCo.

Excluding Telstra InfraCo, Mobile and NAS EBITDA margins are expected to be lower by mid to low single digits, and Fixed and Data & IP EBITDA margins are expected to be lower by mid to high teen digits.

Slide – Our financial strategy supports our Telstra2022 strategy

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

Our initiatives seek to grow our underlying businesses with bold initiatives across Consumer and Enterprise.

To grow our underlying businesses, we need to turnaround the current trends in mobile revenue and ARPU. Today we have announced our strategy to do so.

We are also aiming for future growth with new opportunities such as 5G.

For nbn, our reseller economics depend on our subscribers, our ARPU, our cost to serve and connect, and nbn's CVC/AVC charges. Our initiatives will improve all those factors that are within our control.

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

We are resetting our cost base.

We are delivering returns on our capital investments.

We are committed to the \$500 million benefits from our strategic investment of up to \$3 billion.

The spectrum auction is very important to us.

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

Finally, capital, cash and fiscal decisions will be managed via our capital management framework.

Turning to guidance.

Slide – No change to FY18 guidance post May trading update

FY18 guidance numbers are consistent with our 14 May trading update.

While we do not typically provide guidance on the dividend we are conscious the dividend is very important to shareholders. We are confirming today our total dividend for FY18 is expected to be 22 cents per share, fully franked, including ordinary and special.

Slide – FY19 guidance

Turning to our FY19 guidance based on current accounting standards.

In FY19 we expect total income of \$26.6 to 28.5 billion.

We expect FY19 EBITDA excluding restructuring of \$8.7 to 9.4 billion.

FY19 additional restructuring costs are expected to be around \$600 million.

We expect FY19 net one off nbn DA receipts less nbn cost to connect of \$1.8 to \$1.9 billion.

FY19 is a very material year in the migration to the nbn and its impact on Telstra. However, the basis for our guidance on nbn one off volume in FY19 is an estimate of a lower volume of disconnections than the last nbn corporate plan for FY19 as a result of the HFC cease sale.

In FY19 we expect capex of \$3.9 to \$4.4 billion.

We will provide FY19 guidance for free cashflow at our full year results announcement in August.

As is usually the case, the basis on which we provide guidance is detailed in the slide footnote.

Slide – FY19 underlying EBITDA

As highlighted at our 14 May trading update, we expect that influences that are resulting in declining underlying EBITDA in FY18 will continue in FY19.

This includes ongoing intense competition. In our guidance, we have estimated FY19 total market mobile and fixed revenue will decline 2-3% on FY18.

In FY19, we expect a decline in our mobile EBITDA given ARPU trends and potential impact from a fourth entrant.

From our updated strategy we expect an accelerated reduction in traditional mobile revenue including excess data, excess voice and other fees across the next three years.

Headwinds from the nbn network rollout will continue to impact our fixed line business.

We have increased our cost productivity aspirations which will partially offset the negative trends in FY19. We expect to achieve more than \$1.5 billion of our cost productivity target by the end of FY20.

Slide – Maintain balance sheet strength and financial flexibility

We manage capital, cash and fiscal discipline through our Capital Management Framework.

Our objectives remain unchanged:

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

We remain committed to all principles.

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

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

Our capex guidance in FY19 equates to 16 to 18% capex to sales. As you know, we've elevated our capex by up to \$3 billion to support our strategic investment. We are on track to complete this investment in FY19 and possibly into FY20.

The accompanying slide provides further detail regarding our capital management framework.

In summary, we are operating in one of the most challenging periods the company has faced with the rollout of the nbn, competitive intensity and fourth entrant in mobiles.

Against this background, we have an updated strategy and increased our net cost productivity target to \$2.5 billion by the end of FY22.

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

We are well positioned for the long term. We believe in the long-term value but the short to medium term is likely to be more challenging.

Thank you. I will pass to Andy to conclude.

WILL IRVING – GROUP EXECUTIVE, TELSTRA WHOLESALE

Slide – Pillar 2

As Andy has outlined, Pillar 2 of Telstra's new strategy is focussed on maximising the value of our infrastructure.

As such, one of the key changes we are announcing today is the formation of a new stand-alone Business Unit in Telstra called Telstra InfraCo.

I will now spend some time talking through:

- Firstly why we are establishing Telstra InfraCo and how it will better serve customers.

- I'll then give you a closer look at what it will consist of, followed by a look at its key financial metrics.
- Finally, I'll outline our timeline from a reporting perspective.

Slide – Why establish Telstra InfraCo?

From 1 July, Telstra InfraCo will be responsible for key fixed network assets as well as Telstra's relationships with our wholesale customers and with nbn co.

It will be accountable for the following infrastructure:

- Our copper and HFC networks;
- All of our fibre network that is not dedicated to mobiles;
- Access equipment associated with these networks;
- All ducts, pits and pipes;
- Property, including managing more than 5,000 exchanges, together with our data centres; and
- Our international subsea cables.

This totals millions of kilometres of connectivity infrastructure around Australia and internationally.

From an organisational perspective, Telstra InfraCo will comprise both our Telstra Wholesale team, which provides sales, marketing, product and customer service for domestic wholesale customers; and also our NBN and Commercial Delivery team in Telstra Operations, which is responsible for the services we provide to NBN Co including network design and construction.

From its establishment on 1 July, Telstra InfraCo's mission will be to be the most efficient fixed telecommunications infrastructure provider in the market. It will have clear incentives to drive capital efficiency and return on invested capital, including focussing on monetising assets. It will also have a primary mission to improve productivity and infrastructure delivery, benefitting all our customers.

For our investors, segment reporting of Telstra InfraCo will provide greater visibility of the value of these assets and the returns they generate.

Additionally, by putting these assets in the one business we are giving ourselves more options and flexibility - particularly as we look forward to the period after the NBN rollout is completed.

Slide – Customer benefits

The creation of Telstra InfraCo will deliver benefits to all our customers. InfraCo itself will have three types of customer relationships:

- It will serve our 200 plus wholesale customers in Australia by providing them the infrastructure and services they need to reach their customers – continuing Telstra Wholesale's leadership in the wholesale market.
- It will serve nbn co across the range of activities we undertake for them: from network design, construction and maintenance, to access to our infrastructure and asset transfers under the Definitive Agreements. By bringing various dimensions of our relationship with nbn co closer together we will better integrate how we serve nbn co.
- It will also serve the rest of Telstra, providing it with access to the fixed telecommunications infrastructure it needs to deliver services to all market segments from Consumers to large Enterprises. It will have performance targets and internal Service Level Agreements to improve fibre delivery timelines and infrastructure availability, which will benefit all customers.

You will have noted that mobile assets are not part of Telstra InfraCo. Telstra will continue to operate an integrated mobile business, with key assets including spectrum and towers, and our NAS business remaining with our retail business units.

Likewise, responsibility for operational activities, like actively managing the traffic on our fibre networks, will continue to be with Telstra's Operations group, as it does today.

Indeed, while Telstra InfraCo will share ownership of the equipment used to power services carried over InfraCo infrastructure, all network management functions will continue to be undertaken by Telstra Operations. This means that we will continue to run one integrated network from a traffic and managed services perspective.

This alignment of assets and operations is designed to ensure that we continue to lead the market across Consumer & Small Business and Enterprise, and deliver on the plans that we have outlined today under Pillar 1.

Moreover, having our mobile network, software, applications and 4G/5G and IoT capabilities all aligned together with our retail customer businesses will enable close collaboration with customers to bring innovative new products to market faster.

Finally, maintaining an integrated mobiles business is particularly important as we execute on our strategy to rollout 5G.

Slide – Telstra InfraCo

This slide details the full make-up of Telstra InfraCo.

As I mentioned, it will have three key customer segments – Wholesale customers in Australia, nbn co and the broader Telstra.

It will be accountable for all our fixed network related infrastructure as I outlined earlier.

From an employee perspective, it will bring together Telstra Wholesale and the NBN and Commercial Delivery teams, which combined total more than 3,000 people. As a part of Telstra, Telstra InfraCo will continue to make use of shared services provided by Telstra, including Global Business Services and support functions.

Importantly, because the new structure maintains separation between Wholesale and our Retail businesses, the creation of InfraCo is consistent with all our regulatory obligations, including our Structural Separation Undertaking and our information ring-fencing obligations to nbn co.

Reflecting the standalone focus of Telstra InfraCo, it will have its own CEO, who will report to Andy Penn as Telstra CEO.

I am leading the implementation process for InfraCo to enable a smooth transition once the permanent appointment of the InfraCo CEO is announced.

Slide – Telstra InfraCo indicative financial metrics

At establishment on 1 July, this new Business Unit will control assets with a book value of approximately \$11 billion, broken down as shown - with the majority being ducts, pipes and fibre.

Its annual revenue for FY18 would have been around \$5.5 billion.

This revenue has four primary sources.

- Externally, there is revenue from domestic wholesale customers – the business that is Telstra Wholesale today.
- There is revenue from nbn co for the commercial works we are undertaking for them as part of the rollout. This revenue does not include one-off payments from nbn co.
- There is the recurring long-term proceeds from nbn co from the Definitive Agreements covering the nbn.
- Finally, in addition to external revenue, there are the internal access charges from the use of Telstra InfraCo infrastructure by the rest of Telstra. These are calculated at market rates or the closest equivalent.

Based on this revenue, there would have been EBITDA of around \$3 billion in FY18. This splits into roughly two-thirds that is recurring, long-term revenue (including recurring nbn receipts, which are inflation linked and grow over the next 30+ years), and then one-third that is tied to legacy assets and the rollout of the nbn and thus is declining each year.

These figures are estimates and may change subject to final asset valuations. Nonetheless, they serve to underline the size and scale of this new infrastructure focused business.

As you can see, our investors will now have greater transparency of the value of our fixed assets and Telstra's performance in managing them and in driving returns on invested capital.

As I mentioned before, it also gives us more optionality for the future as the industry continues to evolve and the nbn rollout is completed.

Slide – Telstra InfraCo implementation timeline

In closing I will leave you with some details on our timeframe for setting up InfraCo as a stand-alone business unit.

On 1 July the employees and customers will be aligned into Telstra InfraCo and we will begin implementing the standalone arrangements for asset and operational accountability outlined earlier. As you can see, this process will be completed during FY19.

In August, at our Full Year Results, we will publish pro forma FY18 financials for Telstra InfraCo.

Beyond that, we will have the first formal segment reporting of InfraCo as part of our first half results for FY19 in February next year.

Thank you.

[END]