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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 Telstra Investor Day held on Monday 2 May 2016, for release to the market.

Yours faithfully

Carmel Mulhern
Group General Counsel

Telstra Investor Day, 2 May 2016 – Transcript

MR P. KOPANIDIS: Good morning, everyone and welcome. My name is Peter Kopanidis and I'm Telstra's Head of Investor Relations. On behalf of Telstra I welcome you all, both here in Melbourne and those joining us via webcast to our first investor day for 2016. 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 the traditional owners of the land on which we meet, the Wurundjeri people of the Kulin Nation, and pay my respects to elders, both past and present.

Presenting today will be our CEO, Andrew Penn, CFO, Warwick Bray and our Chief Operating Officer Kate McKenzie. There will be two separate Q&A sessions this morning for investors, analysts and media. There will also be a Gurrowa tour at 11.30 at the conclusion of today's event. With that, I will now hand over to our CEO Andrew Penn for our first session. Good morning, Andy.

MR A. PENN: Thanks very much, Peter, and good morning, everybody, and welcome to Telstra's Investor Day briefing. As Peter said, there will be three of us speaking this morning. We will cover three things in our presentation. Firstly, I will make a few comments on strategy and here I particularly want to reinforce the point that our strategy has not changed. However, I will comment on how we are raising the bar, particularly as the migration to NBN accelerates.

I'm going to then hand over to Warwick, our Chief Financial Officer, who will take you through our capital management framework which continues to guide all capital decisions that we make. Warwick and I will then be both on stage and be happy to take some questions for you and then following this Kate McKenzie, our Chief Operations Officer, will discuss our network resilience program with you. In particular, Kate will share with you the outcomes, learnings and actions from the investigations that we have conducted recently into the network interruption in February and in March.

This will then be followed by a further Q&A session, as Peter indicated, where Kate will be joined by Dave Williams, the independent global expert network engineer, who has been assisting us with the investigation.

Before I start my comments, let me bring to your attention, though, two announcements that we have made this morning. Firstly, following the recently announced sale of shares in Autohome, we are announcing a capital management program of at least $1.5 billion; the details for which we will communicate in line with our full year results in August. And then, secondly, we will be investing a further $50 million to implement some of the recommendations following the network resilience review.

When I commenced as CEO I said to you that you should not expect a significant change in strategy or direction of the company. That statement remains true because our strategy remains the right strategy. There's no doubt, however, that over the last year competitive intensity has increased, the roll-out of NBN has progressed and the rate and pace of technology innovation has continued to accelerate.

In response to these dynamics, we have announced a very clear vision; a vision to make Telstra a world class technology company that empowers people to connect. This is not a change of strategy, but it is a very real and material lift in the level of our aspiration and I'm going to come back in a moment to what it means to be a world class technology company. Firstly, however, let me make a few comments in relation to the execution of our strategy against the three pillars that we have previously identified; improving customer advocacy, driving value and growth from the core of our business and investing in long-term growth.

Improving customer advocacy remains our single most important objective. There's no doubt that we have more to do here and customer expectations at the same time are changing. In response to this, we continue to pursue a number of significant improvement programs which seek to improve both our services approach, but also to leverage digital capability that simplify doing business with Telstra. For example, the 24x7 app now has 2.6 million active users and we have significantly enhanced functionality to help customers get the most out of their services with us.

Through our Check-In program we have completed more than five million engagements with business and consumers customers around the country addressing issues proactively with them that they may have. While online tools are increasingly popular amongst our customers, some still do want access, though, to premium services and, as a consequence, we continue to expand the range of services available from Telstra Platinum, our premium service. We now have more than 160,000 active users of Platinum.

We also continue to invest in our core processes and systems to address some of the legacy issues which result in poor customer experiences. We recently introduced process changes which have seen our mobile order to activate time reduce six-fold from 43 minutes to seven and our objective here is to minimise the amount of time our customers need to spend in store and have a walk-out working solution when they leave.

Other changes to core processes have led to faster customer experiences, including a 23 per cent improvement in agent booking system, a 20 per cent improvement in processing orders of a move and a 17 per cent improvement in new customer orders. This process improvement work is ongoing and critical, but we do need to accelerate it which Warwick will touch on later.

Improving customer advocacy is also about driving more value in our plans for our customers. Products like our Best Value Home Bundle Ever, launched in March of this year, and the BizEssentials bundles for small business are both performing very well in the market. The Best Bundle Ever includes a terabyte of data, Telstra TV with BigPond Movie credits, Presto and Fox Sports Now along with increased inclusions and Telstra Air.

Telstra TV is the only Australian streaming service to offer the three main subscription video-on-demand services – Presto, Netflix and Stan – and all free-to-air catch-up services. We now have 148,000 Telstra TVs in the market and we continue to add value and content to the service. In particular, the AFL and NRL apps were launched on Telstra TV in February and March.

Finally, we have also recently launched the new NBN self-install kit for Telstra customers in FTTN areas. These new kits are being shipped to customers as soon as their address becomes NBN ready, and includes a new NBN-compatible Wi-Fi gateway and a pre-prepared cordless telephone. Once the customer plugs the gateway in to replace their existing ADSL modem we can seamlessly transition them to NBN remotely. This simplifies the experience for the customer and is a significant productivity improvement for Telstra.

Turning to our second strategic pillar and our work to drive value and growth from our core. We have continued to grow customer numbers in our core mobiles and fixed broadband businesses, in line with the trends for the first half of 2016. This leverages the work we are doing in customer advocacy, as well as our core network strength. Notwithstanding the interruptions we experienced in February and March, which Kate will address shortly, our networks continue to be the best in Australia. They continue to provide us with real strategic differentiation and continue to offer our customers a great network experience, and we are committed to continuing to invest in them.

As you know, we have increased our total CAPEX investments to 15 per cent of sales, and over the three years to June 2017 we will have invested more than $5 billion in our mobile network. We're on track to achieve 98 per cent population coverage with 4G by the end of June, and 99 per cent by the end of June 2017. Looking to the future, we are active on the global stage in developing the LTE broadcast system where we have joined forces with leading global operators including Verizon, KT in Korea and EE from the UK to launch the LTE-Broadcast Alliance. We have also actively engaged in setting new world standards for 5G, and we will be running our first live 5G trials in conjunction with the Commonwealth Games in Queensland in 2018.

The Telstra Air network now has 300,000 hotspots nationally and includes 4,000 public Wi-Fi hotspots and over 650,000 active customers. Since December we have offered mobile and new home broadband customers free unmetered data at Telstra Air hotspots in Australia. Going forward, we will offer mobile customers 10 gigabytes of Telstra Air data as part of our new consumer plans, which further differentiate us in the market.

On NBN, our experience in network construction and maintenance has led to a series of recent agreements with NBN Co for additional work. This includes the $1.6 billion contract that we signed last month to provide planning, design, construction and management services within the Telstra HFC footprint.

Finally, productivity also remains a key focus for us in driving value from the core. Warwick is going to speak more about this later, and in particular how we are raising the bar on our productivity program.

Let me turn to the third strategic pillar, building new growth businesses.

Our strategy for our growth businesses is designed to realise opportunities that leverage from our core strengths. This includes investments in digital media, eHealth applications and software, services, and geographically our investments in Asia. Some of these investments are also important in building the technology capabilities which we will need to become a world class technology company, and which I will speak about further in a moment.

Despite not being able to progress the opportunity in the Philippines, we continue to build the Telstra brand across the region, improving our connectivity, managed services and data centre services to carriers, multinational companies and governments. In this regard, Pacnet provides us greater specialisation and scale, including the delivery of enhanced services such as software-defined networking which are opening up significant incremental opportunities for us. The acquisition has positioned us as a leader in international connectivity. Elsewhere in the region, progress at our telkomtelstra joint venture in Indonesia is continuing to accelerate and is now servicing its first customers and showcasing business offerings through Indonesia’s first customer experience centre. We have also recently launched in Indonesia a telkomtelstra private cloud service.

Before moving off Asia, let me comment briefly on the recently announced sale of the majority of our shares in Autohome. Autohome has been a tremendously successful investment for Telstra and it has played an important role in developing our presence in China in the technology sector. It was, however, an investment made in 2008 outside of the current strategic context. As we look forward into the future for Autohome, what is clear is that we need to help Autohome build the capabilities for it to continue to be successful in what is a very dynamic internet market in China. In this regard we concluded that a local strategic partner would be extremely beneficial, and Ping An fits this objective very well given their interest in car insurance, financing and e-commerce. We will retain a six and a half per cent investment in Autohome and a board seat.

Finally, a couple of comments on health. Telstra Health is now offering connective solutions in primary aged and residential care, hospitals, radiology, pharmacy, health analytic and telemedicine. As we build this business we have completed two acquisitions this year. Health IQ is a company that supplies possible resource optimisation and patient flow software, and EOS technologies is a community care software provider.

MyCareManager, an eHealth product that helps deliver quality service at a distance, is now servicing seven leading aged care agencies, and ReadyCare has entered into an agreement with a travel insurance provider to enable travellers to talk to a doctor in Australia via a phone 24/7. We remain very excited by the opportunities for technology to transform and improve the efficiency of the healthcare sector in the future.

Let me now turn to our vision to become a world class technology company.

The traditional worlds of technology and telecommunication are converging. At the same time, the rate and pace of technology innovation is accelerating. Against this background it is critical that we build and expand our skills and technology to take advantage of the opportunities it presents, but also to build the capabilities necessary for our core business to be successful in the future. And if we're going to be a world class technology company we have to deliver a world class customer experience. We have to have access to world class technology, leveraging world class networks with world class people. Let me comment on each of these briefly.

Firstly, world class customer experience.

No longer is it good enough to just provide a great customer service. We have to find ways to drive transformational change in the way in which customers interact and receive services from Telstra. Today, customers do not necessarily benchmark their service experience with Telstra against our traditional competitors. They benchmark against companies that they are interacting with every day. Technology is playing an increasingly significant role in transforming customer experience by taking a lot of friction out of the system. You would see this from companies such as Uber and Airbnb. Given this, we need to not only continue to drive customer advocacy but we need to make a transformational change in the customer experience that we deliver through the use of technology.

Which brings me to world class technology. And when I say that our vision is to become a world class technology company, that does not mean to say that we expect to become Microsoft or Google. The point is, Telstra, through our capabilities and partnerships, is in a position to provide a window into the best of technology available today and deliver it across our networks to our customers. And there is virtually no technology innovation today that is happening that does not rely on the underlying network.

Telstra already has the best networks in Australia, and therefore we are uniquely positioned to leverage the best technology delivered across our networks through significant distribution channels that we have and through our customer relationships. And this is why our continued investment in network leadership and addressing the network interruptions that we experienced in February and March is so important.

And, finally, let me come to the point of world class people. There have been a number of changes in the senior management team since my appointment and obviously that is natural following a change of leadership. Through this process, we've been able to bring some outstanding new talent to an already very strong senior executive team at Telstra. The recent appointments of Kevin Russell as head of Retail who commenced with us last week and Stephen Elop to lead a new role which sits at the heart of our technology aspiration as Group Executive Technology, Innovation and Strategy are an indication of the quality of the talent that we've been able to attract.

Before I close, I would like to address one last topic which is what does it mean to be a world class technology company? I mentioned a moment ago that the reality is today that technology, and by that I mean digitisation and software, is playing a very significant role in our core business, more than it has ever done in the past. Increasingly, it plays a very substantial role in how we optimise performance in the core underlying physical networks and you will hear more about this when Kate speaks.

The Pacnet software is an example. Their software defined network capability is a good example. It is also playing a role in how our customers best leverage what is available in terms of services and contents across the network. The growth of our network application services is another fantastic example where we've been growing at more than 20 per cent per annum for the last few years to create a business that's now generating annual revenues in excess of $2.5 billion with increasing profitability margins.

Whilst NAS has predominately focused on large customers in the enterprise and government sectors to date, there is no doubt that the same dynamic is going to play out across our other customer segments for small or medium sized businesses and consumers. This will manifest itself in productivity opportunities for small businesses including digitisation of their business, e-commerce, etcetera, as well as the integration of digital media offers and smart home capabilities for consumers.

And this is why it is so important for us to build these capabilities, which is the objective of a number of the investments we have made recently. For example, in our enterprise services business, Kloud, which we acquired last year is a major integration specialist for Microsoft cloud based services in Australia. It links very well with our partnership with Microsoft and our strategy to host Azzure which is their wholesale cloud platform in our cloud offering.

Globecast, also under the GES banner there, builds on our media capabilities and I've already mentioned the strategic advantages that Pacnet brings. In software, our investments in Ooyala, Nativ and Videoplaza to build an intelligent video capability is motivated by a number of objectives. It offers us a new growth avenue. Media is the single biggest driver of traffic across our networks, so if we can find ways to distribute media over an IP network more efficiently, that delivers benefits into our core business.

We are, of course, a media company ourselves. We also service very significant media companies across Australia and internationally, through GES. And finally, through the acquisition of Ooyala, in particular, we have acquired software and data-analytics capabilities which will be useful for us in our core business and which are capabilities that we didn't previously have. The point I really want to make here is that all of the investments that we have been making are consistent with our aspirations to build technology capabilities in pursuit of our core vision and strategy.

Warwick will comment more on this in his presentation, in particularly, highlighting some of the investments that we've also made through Telstra Ventures. But before I hand over to Warwick, let me summarise and close.

Our strategy is unchanged and remains the right strategy. Our customers remain at the heart of everything that we do. We do, however, need to lift the level of our aspiration to become a world class technology company as the rate and pace of technology innovation accelerates.

It is also critical that we do this to accelerate the rate at which we digitise our core business and deliver better customer experiences and improved productivity. The partnerships, investments and acquisitions that we have been making are all closely aligned to this strategy. Let me now hand over to Warwick who will take you through the capital management framework and then Warwick and I will be very happy to take any questions that you may have. Thank you.

MR W. BRAY: Good morning and thank you, Andy. Today I plan to step you through our capital management framework covering our financial strength and flexibility, how we think about dividends and outcomes of recent investment and portfolio management.

Our capital management framework has been in place since 2012. This strategic framework remains that against which we make all capital decisions. Our capital management objectives remain balanced; namely, they're designed to maximise returns for shareholders whilst maintaining 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, these principles remain unchanged. This framework enables us to take a measured and balanced approach towards capital and portfolio management, while achieving the frameworks objectives.

For example, we have actively managed our investment portfolio, including M&A investments such as Pacnet in 2015 and the recent announcement of the sale of a 47.7 per cent stake in Autohome.

We've increased returns to shareholders with our half year ordinary dividend increasing one and a half cents per share to 15 and a half cents per share over the last two and a half years, and a $1 billion off-market buy back that we completed in the first half of FY15. Following the sale of Autohome, today we are announcing a capital management program of at least one and a half billion dollars. We have continued to invest in our core businesses including a $500 million increase in capex over FY16/17 to accommodate higher spend on mobiles.

We've also strengthened our balanced sheet with Euro, US and domestic debt issuance over the last 12 months providing diversification of our funding sources and adding further duration to our debt portfolio and the retention of financial flexibility. I will now go through each principle in more detail.

Our first principle is to maintain balance sheet settings consistent with a single A credit rating. We are rated A2 by Moody's and A by S&P. We have had a consistent single A credit rating for over 10 years. Our credit rating is very important to us as a frequent issuer of long-term capital market debt. Our financial profile and rating has aided recent debt issues at significantly lower rates than our current average borrowing costs. This includes a 10-year 750 billion Euro bond in April 2016, swapped back and fixed at 4.165 per cent. This bond deal was the tightest ever 10-year priced by an Australian issuer in the Euro market across senior-unsecured formats inclusive of both corporates and financials.

Our borrowing costs on our gross debt reduced to 5.6 per cent in the first half of FY16 and we expect a further reduction as higher cost debt matures. At December 2015 we were at the conservative end of our comfort bands to meet our criteria of a long-term single A credit rating and this provides us with strategic, operational and capital flexibility.

It is intended that the proceeds from the recently announced sale of Autohome shares will be used to fund the capital management program of at least $1.5 billion dollars to commence in the first half of the 2017 financial year.

This program is another example of our balanced approach towards capital management, including active management of our investment portfolio, the creation of shareholder value in accordance with our capital management framework.

Our second principle is to ensure the dividend remains fully franked and to seek to increase it over time. If we were to achieve that, we clearly have to achieve long-term growth in sustainable earnings. When assessing sustainable earnings the focus is on the long-term or the exit run rate of earnings post roll-out of migration to the NBN. This means that sustainable earnings are not the same as deducting one of Per Subscriber Address Amounts, PSAA, and ownership receipts and/or one-off costs of migration from current earnings. Therefore, we may pay ordinary dividends in excess of 100 per cent of earnings excluding PSAA in a particular year as the NBN is rolled out.

So let me turn to our strategy to influence sustainable earnings. Our business is already changing in nature as a consequence of technology innovation and market developments. Over the next five years we will also face the implication of the migration to NBN. Against this background, there are four main influences on our sustainable earnings.

Firstly, the change in mix of our existing products. Secondly, the migration of all fixed services to NBN and the ultimate structural separation of Telstra and NBN Co becoming the wholesale provider of fixed-line services in Australia. Third, we're raising the bar on our productivity program and, fourth, our investment in long-term new growth businesses. Our strategy is to achieve long-term sustainable earnings by managing these four dynamics. I will now break down each limb of this chart in more detail.

Firstly, the change in mix of our existing products and services. The EBITDA margin of our major products are very different and each of these products has a very different growth profile.

For example, fixed voice revenue has declined and NAS revenue has grown strongly. Fixed voice is our second highest margin product and NAS margins are currently in the single digits. As the income mix of products has changed, this has had an impact on our growth and EBITDA margins. This means we're seeing the composition of our business change, such that our average underlying percentage EBITDA margin has reduced even though the EBITDA in dollar terms has increased. Or put it another way, if nothing else were to change and prior to considering the effects of the NBN, the aggregate EBITDA percentage margin will decline even though we aim to achieve absolute EBITDA growth.

The second influence on sustainable earnings will be the NBN. The NBN has one-off and recurring impacts. The one-off impacts only partially compensate us for the long-term recurring impacts to our business and once the NBN is fully migrated the negative impacts on our EBITDA which we're aiming to offset is $2 to $3 billion per annum. Let me explain.

Firstly, impacts from the Definitive Agreements with NBN Co include one-off impacts of $4 billion NPV at June 2010 of PSAA and ownership receipts at a 10 per cent discount rate. In nominal dollars, cumulatively to the end of first half FY16 we've received almost $800 million in relation to these. On the recurring side, Telstra will receive $5 billion of NPV at June 2010 of Infrastructure Service Agreements, ISA, for lease of ducts, rack and backhaul to NBN Co at a 10 per cent discount rate.

Secondly, as a retail service provider, one-off costs include transitioning customers across to the NBN. This is costly and our NBN connection costs are several hundreds of dollars per connection. In first half of FY16 we reduced costs to connect by 18 per cent. We plan to reduce this further. On a recurring basis, Telstra and the industry will also incur new operational access costs including Access Virtual Circuit, AVC, and Connectivity Virtual

Circuit, CVC, payments to NBN Co. These are significant and will result in a decline in our fixed margins.

For example, based on NBN Co's target of eight million connected premises by 2020, NBN Co's disclosed first half FY16 ARPU of $43 and our existing market share of just under 50 per cent, we could incur long-term NBN payments of around $2 billion per annum. These access costs will be partially offset by a reduction in legacy network costs and other avoided costs including reduced capex. Another recurring consequence of the NBN is loss of wholesale revenue including PSTN, ADSL and Unbundled Local Loop.

If we add up all of the recurring DA and retail service provider impacts shown at the top of this chart, the net negative impact on recurring EBITDA is $2 to $3 billion per annum at the completion of the migration to the NBN. The AVC/CVC payments are by far the largest elements of this estimated impact. We expect the effects of the NBN to mostly stabilise at the end of the roll out. Therefore, it's important to focus not only on the EBITDA at the end of this period, but also the growth in our business at that time.

We also continue to maintain a natural hedge in our business which protects us from an NPV point of view from the timing of the NBN roll out. Although the timing of the NBN roll out will impact cash flow, delay will mean we will retain legacy margins for longer.

In addition, we have signed a number of commercial works contracts with NBN which are excluded from the estimated recurring $2 to $3 billion dollar EBITDA impact. These commercial works contracts include the previously disclosed HFC Delivery Agreement and Network Planning and Design.

The third limb of the sustainable earnings structure is productivity. To offset the impacts described it's important that we execute our corporate strategy, including increasing customer advocacy, driving value and growth from the core and building new growth businesses. Our productivity program is designed to deliver cost efficiencies, EBITDA growth and better customer outcomes.

Over the last five years, we've managed our productivity program delivering $1 billion in gross productivity annually, with more than $500 million annually of this through cost productivity. We've now raised the bar on productivity. We will continue with our progress of the last five years and emphasise the following.

First, digitisation, simplification and getting our processes right first time will lead to increased productivity and better customer outcomes.

Secondly, we're committed to our target of reducing our fixed costs year on year, excluding significant items, with productivity initiatives more than offsetting the impacts of inflation and wages growth.

Thirdly, we've also set ourselves up to deliver on productivity commitments, with accountability for delivery now devolved across business units. The senior leadership team are directly engaged with our productivity program so we can make decisions quickly and speed up the delivery of cross-company improvements for our customers.

As outlined at our October 2015 investor day, we have six productivity themes that focus on delivering better outcomes in FY16. These themes are: improving customer interactions through digitisation and simplification; product and sales optimisation; enabling the future IT network; being a fitter and faster organisation; focusing on supplier partnerships for business outcomes; and realising synergies from acquisitions.

Some specific examples of FY16 productivity initiatives include: firstly, we have reduced the number of pre-connection calls to NBN customers to avoid duplication. We've also focused on fully capturing customer NBN orders initially by front line sales staff to avoid subsequent duplication. As a result, 85 per cent of NBN orders are now fully captured by front line sales staff, and NBN order entry times have reduced by 75 per cent year to date.

Secondly, we have expanded the range of self-service tools from ADSL to cable and PSTN products so that customers can be guided through an online resolution to common problems. The tools guide customers through an online resolution to a common problem. The tools guide customers to troubleshoot and resolve issues related to outages, shaping, modem connectivity, network faults, email, Wi-Fi optimisation, isolation tests and hardware faults. Additionally, there is a continuous improvement program to improve the capability of these tools in order to further improve resolution rates and reduce customer effort needed to resolve issues. As a result, we estimate that we have avoided over 300,000 customer calls and truck rolls year-to-date.

Third, we have made it easier for contact centre consultants to solve customer queries through simplified tools and processes. All fault types relating to Telstra Business Broadband and Digital Office Technology products have improved, guided a by step-by-step workflows for our contact centre consultants to follow to resolve a customer fault enquiry. This capability has been deployed to all relevant contact centres, and we are using this capability for every relevant customer call we take. As a result, first call resolution rates have improved in assurance contact centres to 72 per cent. We have had fewer repeat calls and we've positively impacted the experience of 72,000 customers year-to-date.

Lastly, we are proactively identifying and remediating unstable ADSL lines prior to customers contacting us about issues. We estimate that this has delivered more consistent speeds for 1.6 million ADSL customers and avoided over 225,000 customer calls and truck rolls year-to-date.

The fourth influence on sustainable earnings is building new growth businesses, which will be addressed later in my presentation.

In summary, our dividend policy is to ensure that dividends remain fully franked and seek to increase it over time. To do this, we must grow sustainable earnings. On NBN we will have a $2 to $3 billion dollar negative recurring EBITDA impact by the end of the migration to the NBN on our business. Our strategy is in place to offset this impact through continued growth from our core business, albeit at lower percentage margins, productivity with a focus on customer and profitability outcomes, and building new growth businesses.

Furthermore, although we expect a change in composition of our EBITDA, we have replaced lost earnings before. Over the last five years we've replaced approximately $3 billion of lost EBITDA from the decline and ultimate sell-down of Sensis, one and a half billion, the decline in fixed voice services, one billion, and the sale of TelstraClear and CSL, a few hundred million. We've replaced lost earnings primarily through growth in mobiles and fixed broadband services.

Moving now to Principle 3, which states we will target medium term CAPEX-to-sales ratio of approximately 14 per cent, excluding spectrum payments. For FY16 and FY17 we have increased CAPEX by approximately $500 million to support 4G network performance and expanded coverage from 92 per cent of population in FY14 to 99 per cent in FY17. Our total investment will ensure we maintain clear network superiority and provide an ongoing strategic competitive advantage. Our current guidance is, therefore, CAPEX-to-sales of approximately 15 per cent in each of FY16 and FY17, reducing to around 14 per cent in FY18 and the medium term. We expect lower capital intensity longer term, reflecting the transition of ownership of the last mile to NBN, and the expected shift in product mix to lower margin and less capital-intensive products and services. For instance, growth in NAS where CAPEX at maturity is expected to be single digits, and growth in software as a service offerings that also require lower CAPEX.

Our CAPEX settings allow us to continue to focus on network leadership and give us capacity to invest, including strategic investment supporting growth in NAS and our core fixed business. In addition to mobile CAPEX, our current CAPEX spend is influenced by fixed network investment needed to meet customer demand from increased usage, SVOD and new suburb expansions, investment in data & IP and NAS, which has supported increased data centre capabilities, interstate connectivity, increases in Ethernet and IP transmission nationally and internationally, and growth in wideband and cloud services.

Principle 4 states over a full year we will not borrow to pay the dividend or fund capital returns. Additionally, over the medium term we will not borrow for shareholder returns. Since FY12 we have published our cumulative excess free cash flow. Cumulative excess free cash flow represents the accumulation of free cash generated from operating activities, net of CAPEX, acquisitions and divestments and returns to shareholders. Free cash flow in a period, and cumulative excess free cash are also therefore both important measures when considering capital management capacity.

As at the end of December 2015, cumulative excess free cash was $2.2 billion. From FY12 to the first half FY16 cash flows included operating cash flow of $38.5 billion, divestments of $3.3 billion, with sale of CSL, Sensis and TelstraClear. Including Autohome, we will have made $5.4 billion of asset sales since FY13.

Our cash outflows included investments of $16.8 billion, including approximately $2 billion of M&A investments, significantly less than divestments; returns to shareholders by dividends and buybacks of $23 billion and interest paid. One-off NBN receipts including PSAA will build excess free cash flow over the next five years.

Moving to Principle 5, maintain flexibility for portfolio management and to make strategic investments. Our M&A criteria remain unchanged. Earnings per share accretive in year two. Return on investment above our weighted average cost of capital by year three, and more accretive than a share buyback of similar magnitude.

Our organic investment criteria also remain unchanged. NPV positive using the weighted average cost of capital plus an appropriate risk margin, and clearly we would prefer investments that achieve positive cash flow early. Organic investments include business as usual investments in our annual capital program, such as mobile CAPEX, and start-up investments such as Belong and Ooyala.

We've made a number of portfolio management decisions over recent years. Of the approximately $1.8 billion invested the majority of investments by value have been closely aligned to our core. All have met our investment criteria, including, where appropriate, our M&A criteria.

Our software investments meet our organic investment criteria and are expected to be NPV positive and deliver a return on investment above WACC plus risk margin. However, in the short term these investments are a manageable loss on current EBITDA due to their start-up nature. We plan to talk more about Telstra Software Group, including Ooyala and Telstra Health, at a future investor day.

I will now expand on the around $1 billion invested in Global Enterprise and Services. It has been just over 12 months since we concluded the acquisition of Pacnet and began the task of combining Pacnet with 820 staff, 109 points of presence and 25 offices around the world with our existing GES business internationally. We judge the acquisition and integration to be a success as we will exceed all our M&A criteria. We're forecasting to over-achieve synergy cost targets and are working to identify further synergies to optimise the three year outcome.

The acquisition has accelerated revenue growth including enabling us to sign contracts with significantly larger value than previously, including three wholesale deals with total contract value greater than $25 million so far this year. It has given a strengthened market position including enhanced access to China and it has delivered benefits from the GES international operational and commercial perspective with a platform for enhanced growth.

Customers have responded positively to the integration of Pacnet with Telstra. By combining our capabilities, the acquisition has enabled us to emerge as the leader in international connectivity. We are now the leading international connectivity provider in North East Asia. We provide 30 per cent of intra Asia lit cable capacity, and have been named by Gartner as the number one provider of high capacity low latency networks in Asia.

We are the largest foreign joint venture VPN provider in China with a Telstra PBS JV and the rate of growth has almost doubled post Telstra ownership. We are the first foreign carrier to have licences in China and have two major data centres in Tianjin and Chongqing. We are continuing to invest to strengthen our position in North East Asia including connecting our three cable systems into South Korea, building terrestrial cable connecting our cable systems landing in North and South Taiwan and with further network builds in progress, a huge cable capacity from the west coast to the US we are becoming a key part in that for the major OTT companies coming to Asia and China.

M&A will continue to play an important role in the future growth of our earnings and capabilities. We expect the most significant investments to be closely aligned to our core. We will continue to pursue external opportunities where our existing investment guidelines are met including M&A that is better than a share buy back of comparable size. We will leverage our existing portfolio infrastructure and capabilities.

We will also continue to invest other assets that provide unique insights, assets or capabilities, provide technology and partnership to strengthen capabilities and innovation. Recently this has included Pivotal Labs joint venture which will enhance our software development capability and the Quantum Computing investment given potential impacts globally. We will continue to hold ourselves accountable to our M&A criteria or criteria for organic investments as appropriate. We also continue to monetise the portfolio if we see incremental value creation for our shareholders.

In summary, we continue to be uniquely positioned and through significant scale and balance sheet strength, we are very well placed to foster strategic and balanced growth into adjacent business opportunities including measured growth into Asia.

Telstra Ventures established in 2011 combines our objectives to invest in our core and in market leading high growth companies. Each investment is sponsored by a Telstra business unit in order to strategically leverage our assets. In doing so, Ventures aims to connect world class innovation with Telstra leaders to create solutions for our customers and long-term value for our shareholders. So far, we've realised $64 million against a cost of $33 million from five external liquidity events and an IRR of around 50 per cent on realisation.

In addition, we have generated more than $100 million in revenue for the portfolio which includes Telstra acting as a sales channel for the portfolio companies products. Our Ventures investments create new revenue streams and investment returns. Ventures is helping to broaden our capabilities and achieve growth closely aligned to our core.

Some examples of how Telstra Ventures portfolio companies are working with Telstra include Whispir which is a cloud based software provider that helps businesses manage complex communication challenges posed by planned and unplanned events. We are now successfully partnered with Whispir to win new customers in Asia.

Matrixx which offers a next generation real time billing platform. We are using this platform to improve customer services for our mobile customers through sending real time alerts.

DocuSign a world leader in digital signatures, we're successfully partnering with DocuSign to implement this solution internally and for a number of our enterprise customers.

And Cohere Technologies is working closely with Telstra's network engineering team on the 5G mobile standard. Cohere's Orthogonal Time Frequency and space waveform was recently added to the list of waveforms to be evaluated by the 3GPP standards body. The move was supported by Telstra as well as AT&T, China Mobile, Deutsche Telekom and Telefonica. The investment provides Telstra with better insight into the 5G standard process and technology evolution.

In summary, we have a balanced approach to capital allocation and capital management. Our capital management framework continues to govern our capital allocation decisions. We will retain a strong balance sheet post our capital management program with implementation planned for the first half of FY17. Ordinary dividends will be influenced by long term sustainable earnings post rollout and migration to the NBN, which will in turn be influenced by the evolution of product profitability, NBN impacts, productivity and growth investments.

We have a clear strategy to deal with transition to the NBN including an accelerated productivity program with cost reduction targeted where we can deliver better customer outcomes. Investment in our network remains a key competitive advantage to delivering better experience for customers.

We expect the most significant investments to be closely aligned to our core but we will continue to invest in new capabilities, as appropriate. We are delivering on acquisitions within GES Asia and across Telstra Ventures. I will now invite Andy back on stage and we will open up for questions.

MR KOPANIDIS: We will kick of with questions in Melbourne. There's a queue that's assembling here.

MR I. MARTIN: Thank you. Strategically positioned. Just a couple of questions, if I might, just on the medium term capex guidance for 14 per cent down from 15 over the next couple of years and I understand what you're saying about the lower capex intensity as you migrate to NBN and the maturity of NAS but what's the specific assumption around mobile? That the increased capex we're seeing over the next couple of years comes back off or that it continues on and have you specifically looked at what the capex implications of 5G might be beyond that period or do we just make a generic assumption around that?

MR BRAY: We haven't specifically guided down to mobile capex to sales. If you have a look at our mobile capex to sales which we have published since about 2011 it has actually hugged around 10 per cent pretty closely. We aren't guiding but don't particularly see any reason to change this. In terms of 5G, many of the capabilities are 5G will be achieved on the road to 5G before its actual launch in 2022.

MR MARTIN: All right. Okay.

MR BRAY: Sorry, in the early 2020s.

MR MARTIN: There is a general assumption though that 5G will involve much greater fibre densification, if you like, and that has got a fairly robust capex implication, I guess.

MR BRAY: Yeah. If you have a look at the – look, I'm not going to guide there specifically but if you have a look at the capex implications of 1G going to 2G, 2G going to 3G, 3G going to 4G, each of those has been less of a capex perturbation and we would see more of that trend continuing.

MR MARTIN: All right. Could I just get a clarification as well around the dividend and particularly the PSAA where you're suggesting that the ordinary dividend might be greater than 100 per cent of earnings ex-PSAA. My understanding is PSAA is more an asset sale cash flow, if you like, and that that doesn't contribute to underlying earnings.

MR PENN: I think, Ian, all we're trying to do is make it clear this isn't an algorithm. I mean, the bottom line is in making decisions about the dividend what we need to do as management and the board is to look for long term sustainable growth in earnings. Clearly some of the payments that arise as a consequence of the NBN are one-off. The PSAA are the most notable payments that are one-off and, of course, once the migration is rolled out they will no longer be there.

So people have sort of asked us, “Okay. So is that the same as therefore taking earnings in any one year and deducting PSAA payments?” and our answer to that is, “No”, because partly we incur a lot of one-off costs in the migration anyway which will also go away but also because we’re not sort of managing half year to half year; we’re managing over the longer term and longer term sustainable earnings.

So we’re just making the point that when we’re making a dividend we’re looking to, as Warwick said, the exit of the NBN migration at which point our earnings will be $2 to $3 billion lower, all other things being equal and, therefore, in any one period we may pay a dividend which is greater than earnings less the PSAA. And our challenge is and our strategies to address this is to basically replace those earnings as we have done in the past.

MR S. CHOPRA: Good morning. I had three questions. The first one is around sustainable earnings. When you think about sustainable earnings are you thinking about EBITDA or EPS? The difference being you know…do capital management if needed.

MR PENN: Well, I think – let me tackle the first one. I mean, EPS is ultimately what’s going to determine our ability to pay a dividend and dividend is clearly crucially important to our shareholders so we focus on both but also with a very clear eye on EPS.

MR BRAY: Just to add to that, you mentioned capital management affects EPS, like clearly depreciation affects EPS, but the other one to keep your eye on is interest and so, as we’ve discussed, our interest costs have come down.

MR CHOPRA: The second one is just around the productivity dividend. We had a couple of conversations around cost outs. What do you see as a productivity dividend? There’s two to three billion potential negative impact from the NBN but there’s also scope to knock out a lot of costs in the business. If you take five years, ten years out, what is the sort of productivity dividend the company should be shooting for?

MR BRAY: Look, the way we think about that is – we won’t quantify that but we are aiming for our fixed costs to come down and so that’s how we measure ourselves, that’s the first test. And so we have about $8 billion of fixed costs in our core and our aim is year on year for that to come down in absolute terms and that means that we need to absorb the inflation and wages growth; we need to offset that by productivity and more. Look, the second way we think about productivity is with our directly variable costs and with our directly variable costs it’s about increasing their efficiency. As an example, our mobile hardware margin and as an example our NAS hardware margin as well. So they’re the types of things that we think about when we think about productivity.

MR PENN: And I think it’s also fair to say then, isn’t it Warwick, that clearly productivity is going to have the bigger impact in the short to medium term in terms of our ability to offset the impact of NBN and we need to do it also for the reasons that I mentioned in my presentation which is we’ve got to provide a better customer experience. I was trying to make the point that I think we’ve done a great job in terms of improving a lot of the processes by which we use to respond to customers but we still have a long way to go in terms of improving customer advocacy and one of the things we’ve got to do is really go harder in terms of digitising the core business using technology to provide a great customer experience. And one of the numbers that was fantastic for us, I think, in the first half of the year was that we reduced our costs to connect on NBN by about 18 per cent and at the same time improved NPS by 20 points and so there is definitely a synergy between improving customer advocacy and getting productivity as well.

MR CHOPRA: Thank you. The last one was just around Telstra Health, Ooyala, telkomtelstra. Can you provide us some colour around how sizable are these opportunities? Do you – five years, ten years out from now, are they half a billion dollars of revenue potential? A billion, two billion? How big do you see these?

MR PENN: I think it’s probably too early for us to sort of quote a number on that. I think if you sort of did your own analysis of the intelligent video market and also the health market you would see that they’re pretty sizable; I mean, particularly the health market. The question is to what extent can we leverage technology to improve the efficiency of the health system and where does Telstra play a role in that regard. I think they’re both relatively material – health and intelligent video – but frankly they’re also quite long term.

So it’s sort of 2020 before we think that those sort of businesses are really going to be in – have material scale or more material scale. I think on media it’s sort of slightly different. I mean, media is much more closely aligned with the core. You can see we’re already investing in leveraging our media access quite comprehensively with the AFL and NRL apps, the renegotiation with the mobile digital football rights through what we’re doing on Telstra TV, we’ve just launched Fox Sports now on Telstra TV so media is really providing a great source of differentiation for us in our core mobiles business as well.

MR F. McLEISH: Thanks. Just on the two to three billion, so what’s the base year for thinking about that? Is that FY15?

MR PENN: I’m not sure I understand the question. That is sort of saying that if the NBN were fully migrated now and all of the transitional economics

– what I call the transitional economics – had washed through the system, the PSAA payments, the one-off costs of migration, etcetera, that's the net impact on the EBITDA going forward, but, of course, that's going to happen over the period of the next four to five years migration and our focus and our job – and as Warwick clearly articulated there – is we will pull levers, we will improve productivity, look for growth opportunities to offset that.

MR BRAY: I think your question – was your question was the base year – like, was it relative to 2010 or relative to today? Yes, relative to today.

MR McLEISH: So FY15 - - -

MR BRAY: Yes.

MR McLEISH: And so just, sort of, similar to that, on the ISA payments you're already getting 500 million. If that's going to, say, a billion, then the differential we should think about is the 500 and not the full billion.

MR BRAY: No, we took into account the billion.

MR McLEISH: Okay, great. And then just a final one on the same topic; the revenue assumptions within that two to three are obviously quite important. You've highlighted wholesale revenue loss, but what about things like voice calling or ISDN for example?

MR BRAY: And that was why there is quite a wide range between the two and the three billion dollars and so we probably won't go into too many more of the assumptions. So we highlighted the big one, which was the CVC/AVC payments and so then after that we added back the saved costs that we would make, we took off the ISA payments and then also definitely took off wholesale, then you have to make an assumption about long-term margin on the NBN which takes into account that question.

MR McLEISH: Right. So you have taken some revenue of that - - -

MR BRAY: We have taken some of that.

MR McLEISH: Yes, it's not like a flat ARPU then.

MR BRAY: And that's how you get the range between two and three billion and it's really up to your judgment as to which end of that range.

MR R. TONG: Morning, Andy. Morning, Warwick. Just in terms of the additional deals with NBN, can you maybe help us understand the economics of these deals, like revenues, timing, margins and value?

MR PENN: Well, we've announced several. We've announced the planning and design work on the broader NBN. Did we announce how much that was? I can't remember. But, anyway, that would – you would assume that's sort of relatively front-ended, so we will roll out over the period of the NBN, but the majority of it would fall in the first half.

Then there's the HFC agreement, which is $1.6 billion which we have announced in terms of the revenue. That is basically us doing the build and the management of the build within the HFC footprint and so that, the exact timing of that will be subject to NBN's decision in terms of how they want to roll out, but it will occur basically over the time of the roll out.

And then there's two maintenance agreements. The first is for us to sort of manage the maintenance between the period that an area becomes declared as NBN ready and the asset transfers up until the point that all customers within that area actually are signed up for NBN, so we just sort of – so that's a sort of a transitional arrangement run over four years – well, sorry. It will run over the period of the migration, but it's transitional in that sense.

And then the other is about 25 per cent of the work longer term in maintenance post-NBN and I think we did announce those maintenance agreements were about $80 million in the first year. And if I go back to the original planning and design one, it's in the low hundreds of millions of dollars. I can't remember. I thought we did say something on it, but anyway, it's of that order of magnitude. We also set up the first thousand nodes for them. That work is largely done.

MR TONG: And I suppose just in terms of your media strategy, there's plenty of speculation on a potential IPO of Foxtel. Now, I just wondered whether you could maybe address this and sort of longer term how you see Foxtel fitting within your sort of media portfolio.

MR PENN: Look, there's no doubt that media is crucially important for us from a strategic perspective. If you think about it – and I sort of said it when I spoke about Ooyala – you think about what's driving an enormous amount of volume of traffic over the network, particularly from a consumer point of view, it's content and media; not just consumers, by the way, but also business, but it's content and media.

And our partnership with Foxtel is a great synergistic partnership because it enables us to be able to provide great content solutions for our customers and that's the differentiating factor. We've bundled that into our services. And also we're doing some stuff similarly in media as well through Telstra TV, etcetera. So you can assume that Foxtel will continue to be a strategically important business to us and we will continue to have a very strong partnership with them.

MR CHOI: Just two questions from me. The first one is on margins and the second one is just on that two to three billion dollar EBITDA gap. So just on the margins, on slide 17 you sort of said four buckets ex fixed data and ex fixed voice the margins for those were sort of 34 or 35 per cent, but you've excluded media from that. And Andy you keep mentioning how media is a key enabler, so I'm just wondering if you can give us a steer on the margins maybe including that media group.

MR PENN: Yes. Look, it's a bit hard to give a margin on media because the way in which we sort of leverage the media business or the various media assets is quite often we're bundling them into a mobile offer. And so we're not, therefore, perhaps specifically charging for a subscription. I mean, the AFL and the NRL apps would be a good example of that at the moment. If you're a Telstra premium customer you get access to those apps for nothing, unmetered. So we don't – at the moment we really see it as sort of complementary to our fixed and mobile services and adds value there as opposed to necessarily focusing on the margins standalone.

MR CHOI: Sure. The second question is just on that two to three billion dollars. Obviously you've reiterated your statement that you intend to increase dividends, so you're probably assuming you can fill the majority of that two to three billion dollar gap and then historically you've sort of filled it with mobile growth which is slowing now. Fixed broadband; you've increased your share and increased your revenue, but that sort of looks like it sort of capped out at 50 per cent. So in terms of filling that hole in the future, what are the big buckets that you're thinking of? Maybe – even if you don't give us a quantum – in terms of order of magnitude, what are you sort of thinking about?

MR PENN: Well, I mean, I think Warwick sort of stepped through them helpfully in that structure. I mean, productivity and growth obviously at the macro level – I think we've sort of spoken about productivity a lot – growth in network applications and services we think continues to be a strong growth business. I mentioned in my presentation that to date we've seen that grow very strongly in the large enterprise and government end of town.

I think that will increasingly become a dynamic that occurs across small medium-sized businesses. They need to digitise in Australia, so providing e-commerce solutions, business automation solutions, productivity solutions to small, medium-sized business by taking some of those top-end services and more productising those. We've talked about media a bit and going into mobiles; that can drive both traffic, it also does give us pricing opportunities as well.

And then, the smart home is another area. If you think about the magnitude and the rate of growth of the number of devices and the internet are things that are actually more targeted to the consumer end of town, so cameras, thermostats, digital media, heating, all sorts of everything that's sort of in the home that can be connected will be connected. That will drive more services opportunities, as well. So we think that that's going to be foremost going to be some growth opportunities. I think mobiles in and of itself, I mean, obviously the last period of time it has been competitive in the sense of the data allowances have increased, but nonetheless we continue to see growth in long-term mobiles as well.

MR CHOI: Just a quick one. Obviously the new piece of information is that exit run rate of EPS post-NBN, so mechanically, I know it's hard, but should we be thinking about if we were to step into the Board's shoes what our view is on EPS in FY20, FY21, whenever the rollout is, and then just gradually stepping up dividends towards that EPS? Is that how we should be thinking about it?

MR PENN: Well, I think – I mean, the first thing I should make absolutely clear – there is no new information here. There is no new information here. I mean, the NBN – this is the dynamic of the NBN, the whole re-nationalisation of the last mile of infrastructure and the establishment of NBN means essentially Telstra transferring those assets back to NBN being partly compensated for that, so the one-off payments are the compensation for the loss of earnings over the longer term.

And, as I said, we're trying to sort of make the point that we're not sort of algorithmically driven in the sense of trying to come up with a dividend in every half year; it's more of a long-term, philosophical approach. But what we want to do is to make sure that we grow sustainable earnings, which is the only way that sustainably we can increase the dividend over time.

So we look towards the future, including coming out of that NBN period and Warwick makes the point that once we do come out of that NBN migration, we no longer have that drag on us and then, really, the question the Board needs to assess is our ability to improve productivity, drive growth and achieve what we need to achieve in the meantime to sort of make sure they're comfortable at any one point in time what the dividend they declare in any half year.

MR C. WONG-PAN: Morning. First question, just on the NAS business, you've talked about that being a good opportunity going forward. Could you talk to sort of how big you think that opportunity is and also when the timing of that might come through. Have you sort of started to sort of ready yourselves for preparing for targeting those type of customers?

MR PENN: I think, I mean, we did say at the half year – I mean, the half year numbers were very, very strong. I think NAS growth in the first half was over 30 per cent. We did make the point there there were some one-off contracts which meant that the second half would be a lot lower in the terms of the growth rate. It's more like single digits, and also, therefore, as a consequence 2017, but we still believe over the longer term that's a double digit growth business in the big end of town, but then also, as I said, I think that there's a tremendous opportunity in small medium-sized business.

I mean, only about 50 per cent of small medium-sized businesses in Australia have a website, and of those only 20 per cent are eCommerce enabled. There are massive opportunities to productise some of those service offerings and help small medium-sized businesses become a lot more digitised. So – and then, of course, the other dynamic which Warwick commented on is the opportunity to drive that into Asia as well, and Pacnet gives us a tremendous platform to be able to do that.

Warwick mentioned the rate of growth that we're seeing there leveraging the PBS IPN VPN licences in China as well. And these things are complementary as well because it's not just about a new source of growth above – what I call above the level of the network. It's actually also driving growth and value back into the core network as well, so I'm not going to sort of put numbers around it, but I certainly would like to leave you with the impression that there's plenty of scope to continue to grow.

MR WONG-PAN: But at the moment there's not much – there's no sort of small business enterprise revenues in that NAS business at the moment.

MR PENN: No, no. There is. I think – I don't know if we've disclosed this separately.

MR BRAY: I don't think we break it down.

MR PENN: But, I mean, I would say that the NAS revenues at the moment – roughly, are 80, 85 per cent enterprise in government and, sort of, 15 per cent small medium-sized business, but there definitely is some using our cloud-based services, using some software as a service that we distribute and other productivity tools.

MR WONG-PAN: Okay. And just the last question, on those NBN commercial works, do you think there's other opportunities there for you, or is mostly sort of that already being outsourced now and kind of tendered?

MR PENN: The first thing I should say is our philosophy and strategy is to try and help whatever government with whatever assistance they may require to build and execute on the NBN policy that they have, providing it makes economic sense for us. I mean, so if they want us to do more, then we will absolutely have a look at it. Whether there is, I'm not sure. Time will tell.

MR N. HARRIS: Sorry, Andy. Just wanted to clarify something I think you said at the start. The net adds, your mobile and your broadband, I think you said they're tracking at a similar level to previously. Do you mean similar level to last 12 months or we're still seeing healthy net adds?

MR PENN: I meant to say that the net adds since the end of December, basically, are tracking roughly in line with that which they were in the first half of the year with the results that we announced for half year in February.

MR HARRIS: Great. Second question, just we talked a lot about the EBITDA impact of the NBN. Just trying to capture the capex side of it as well, you've said capex to sales about 14 per cent medium term. Does that medium term mean post-NBN, or could we expect that capex ratio to contract a little bit when NBN ends because of a lower capital intensity.

MR BRAY: Yes. Look, we have said in the longer term we would expect it to be lower than 14 per cent, and we will define the time for longer term. We just haven't yet.

MR PENN: But just on the NBN – and that's right. I mean, you would think over the longer term, as Warwick pointed out, for a couple of reasons. One is because of the composition of the business changes. NAS is a much lower capex intensity, but driving quite strong revenues, and then, on the other hand, NBN migration means that we no longer have the capex ultimately, associated with the last mile of infrastructure.

But the thing to remember is that we still have very, very significant infrastructure assets, not just on the mobile side which, obviously, will continue to be there, but also on our sort of peer-to-peer networks for corporate, but then also within the fixed network as well, the reason we're getting infrastructure access payments from NBN is because we still run all the big fibre links. They're all still ours that run the backbone of the country or to the exchanges, pits and ducts, so there's an enormous amount of infrastructure that we still own that we're running for NBN that we will have to continue to invest capex into, but what we won't theoretically have to invest capex into, ultimately, is the last mile of infrastructure which is re-nationalised.

MR A. LEVY: The three billion dollars in a slightly different way. So if I look at your last 12 months of profit from fixed data and fixed voice the EBITDA contribution was about $2.9 bill, so even if we wiped all that, and then you've got about $600 million additionally to come from the ISA payments on a run rate basis, on my numbers, and it sounds like Fraser's are similar, you would be at about 2.3. So I guess there must be some NBN impacts outside fixed data and voice and some other factors, but I just wonder if you could talk through the two to three billion dollars, sort of, assumption from that angle. Thanks.

MR BRAY: Yes. Look, I think we have, and the – so the calculations we did were as set out, so it was the CVC AVC payments, and you can see each of the three factors into that and see whether that aligns with your model, and on top of that it is the ISA that we receive, the costs that we shed as a result of this, and then also there's the change in the wholesale margins. Now, I think the point of your question is that you're getting, sort of, to the lower end of the two to three billion dollar range, and to get to the higher end – yeah, part of that is the long-term margins you assume.

MR LEVY: Right. But you would be at the higher end. You would be wiping all of your fixed line profitability, effectively.

MR PENN: Presupposing we don't get any productivity improvements, Andrew, but absolutely get productivity improvements as a consequence of running a different business as a reseller of NBN.

MR LEVY: Understood. Yes. Thank you.

MR KOPANIDIS: Okay. So that concludes the investors and analysts. I will hand over to Jason Laird.

MR J. LAIRD: Thanks, Peter. All right. We have a few moments for the media portion of the Q&A. We will start here in the room and then go to any calls on the phone, so we might start in the room if there are any questions. Max Mason.

MR M. MASON: Hi guys, this is Max Mason from The Financial Review. Just a couple of questions. Would you be able to give me some colour around what you're thinking in Asia? Obviously, the talks in the Philippines broke down, and now you're going to give 1.5 million back to shareholders. What are you thinking with your strategy out there?

MR PENN: Yes. No. Look, thanks, Max. Well, firstly, I should say, geographically, Asia continues to be a really important region for us. We've historically really had sort of three pillars of potential opportunity there. The first is and the most important is continuing to grow our Global Enterprise Services business, so that's the network application services in conjunction with the connectivity that we provide for multinational companies and Australian companies expanding into Asia. That business is growing very successfully, and we're making a number of investments around the region to build capability. The Pacnet acquisition has given us considerable scale and some really interesting skills and capabilities around software-defined networking, data centres, points of presence across the region.

The second area of opportunity was taking advantage, potentially, of the sort of disruption that will occur as data volumes increase in the region through core connectivity opportunities. The Philippines fell into that category, and, as you say, we were not able to land on a transaction which we felt had the right risk/reward balance, unfortunately. We put an enormous amount of work into it, and we will continue to monitor that space, and then the third area is really Asia being a source of both capability and an opportunity to invest in some of our longer term investments as well, and some of the assets that we have acquired for example, in electronic health have actually been capabilities that we bought in Asia.

That's another area we will continue to invest in, but I mentioned in my speech that Autohome has been a tremendously successful business for us. We acquired it in a different strategic context. We will continue to retain a six and a half per cent investment and a Board seat which helps us continue to leverage those relationships in China and leverage those connections in China, but our view was that Autohome really needed to think about how it could build new capabilities, continue to be successful in the Chinese internet space, and a strategic partner is a great asset to be able to do that.

MR MASON: And can you give me some colour around the media part of the business? Obviously, you launched Telstra TV last year, and Foxtel is now going to have a direct competitor to that, and Fetch is going to have a director competitor in the new few months as well.

MR PENN: Well, look, I mean, Foxtel runs very independently. That's how we run that business, and the thing I would say is that media is a growing business. More people are watching more content on more devices, more hours every single day, and through Foxtel and through Telstra TV we've got access to some great assets and great content, and they're valuable in of themselves, but they're also helping us to provide differentiation into our core fixed broadband services, and also into our mobile services as well. As you know, in the last year we've re-signed the mobile digital rights for both NRL and AFL, all the way up to 2022 on an exclusive basis. So we think those media assets will be very valuable for helping us differentiate in the market.

MR MASON: And sorry just one more. Do you expect to renegotiate the rates that you will be charging Foxtel for their internet service, so they can triple-bundle?

MR PENN: Well all arrangements between Foxtel and ourselves, and Foxtel and News Corp, are all done on a completely commercial arm's-length basis. If those contracts allow for, and/or require renegotiation from time to time, as any contracts would, that's exactly what we do, but we do it on an arm's-length basis.

MR LAIRD: Okay. Well, it's short and sharp at this stage, so no more questions in the room, no more calls on the phone, so I will hand back to Peter Kopanidis.

MR KOPANIDIS: Okay. Thank you. Thank you, Jason. So the next session is on network resilience, and presenting will be Kate McKenzie, our Chief Operations Officer. Welcome, Kate.

MS K. McKENZIE: Thank you very much, Peter, and good morning everybody. Thanks for the opportunity to update you all on the outcomes of the review of our mobile network following the recent disruptions, and I'm looking forward to updating you on the steps we're taking to regain our customers' trust. As you all know, our mobile network is an asset our customers value as much as we do, and it reflects many years of continued investment and the very best engineering expertise.

Every night, our engineers make numerous changes to ensure that the network is performing to the very highest standards. It is Australia's largest network, and I'm pleased to announce that our 4G network alone now reaches 97 per cent of the population and, as Andy has already said, will reach 98 per cent by June this year, and 99 per cent by June 2017, and our customers enjoy Australia's fastest mobile speeds.

Just to put that into context, across our various domestic networks we manage over 500,000 network elements, including 170,000 routers and switches, 85,000 mobile cells, power and facilities for 40,000 exchanges and network assets, over 6 million kilometres of optical fibre cable, and 250 million kilometres of copper cable. With the explosion of data, the mobile network now carries around 50 per cent more data than it did 12 months ago, and the team is working on new innovations to ensure we are meeting future demands for media and content, and we are making it even better.

Over the three years to June 2017, we will have invested more than $5 billion in our mobile network. We are proud of its performance. However, we absolutely understand that the disruptions in February and March have impacted our customers' confidence. Following those issues we have been absolutely committed to keeping everyone informed about what happened, why it happened, and what we've been doing to address it.

As part of that today I would like to spend some time talking to you about the three major outcomes of our very thorough review. This has been the singular focus for me and my networks teams since those disruptions occurred, and I'm happy to say we are confident we have identified and fixed the root causes of those disruptions, and we have spent time looking at the resilience of the network and identifying ways to ensure we continue to operate at a world class standard for the future. Importantly today I am also going to spend some time focusing on the reasons why we are still Australia's best network.

So I will start with the review findings. The review included our own specialist teams, global experts from Ericsson, Juniper, and Cisco, and an independent adviser, Dave Williams, from Tech Mahindra, to help us ensure that we left no stone unturned. During the course of this review we have taken a range of short and medium term actions to improve the resilience of our network. We have already implemented a number of the recommendations, and we have allocated an additional $50 million to implement some key initiatives delivering us cutting-edge tools in network traffic monitoring, as well as setting an even higher standard for recovery than what we observe in other networks globally.

I will now take you through each of our key findings.

The first outcome is that we have confirmed the root causes of those disruptions and implemented a range of steps to address those root causes, and significantly reduced the likelihood of these issues happening again. We have increased the number of redundant links on the nodes which were involved in the 9 February disruption, and we have added new software features that limit the number of customers who would be required to re-register. We have also added more capacity to the core network, as well as introducing additional checks and balances to key network element restarts.

In addition, we now have more resilience in our international connectivity, and we have added another redundant link from Perth to Sydney. We have also made other network changes to reduce the impact of international IP traffic on domestic IP traffic, and that addresses the root cause of the 17 March incident.

The second outcome relates to increased investment in our network monitoring and tools. In any highly sophisticated world class network like ours there will also be disruptions, which is why we use sophisticated tools to help us better detect issues and allow stronger monitoring.

We are going to make even further investments in this area to take advantage of some of the most cutting-edge technology which is becoming available. We will be specifically introducing more real-time traffic monitoring, along with more real-time customer impact reporting. This will assist in getting better early warning of any traffic patterns in the network that might be a cause for concern. We will be spending around $25 million on installing this monitoring equipment.

Our third focus relates to improving our recovery time for customers to be world class. As I mentioned earlier, this is an incredibly large and sophisticated network, and we can never give a guarantee that disruptions won’t occur from time to time. While our focus on the highest levels of reliability will continue to be relentless, we will also focus on being a world leader in the time to recovery when the unexpected happens.

Essentially, when a disruption occurs mobile users need to be re-registered or re-connected back on to the network. When large numbers of mobiles are trying to re-connect at the same time, there can be a delay in people being able to access the network. It’s like everyone leaving for work at the same time on a Monday morning and heading into the Melbourne CBD. It sort of stresses the systems and slows things down.

This is a common challenge for mobile networks around the world, to ensure that there is enough capacity in the network so that those re-connections take as little time as possible. So, as a result, we are investing an additional $25 million, increasing our capacity to handle a large number of re-registration events occurring simultaneously. What this means is that, in the event of a disconnection, a much larger number of customers will be able to re-register at the same time, so any disruption to services will be of a much shorter duration.

So what does all of this mean in relation to our network strength? Overall, the review, and our free data days, have reinforced to us the strength and resilience of our network. Dave Williams, a highly experienced telecommunications executive, who has worked with Vodafone, AT&T, and Telefonica, has been independently reviewing our network and believes it is world class, from both an engineering and an operations perspective.

He has told us that we are one of a small number of world class networks around the world. Mr Williams is here with us today and will join me on stage for some Q&A shortly. I strongly believe that what we are doing now as a result of that review, particularly in terms of network recovery, will enable us to set new global benchmarks. I will also now talk to you about why we are still Australia's best network. As I mentioned earlier, it is Australia's largest mobile network.

Our 4G network alone now reaches 97 per cent of the population and will reach 98 per cent by June this year and 99 per cent by June 2017. Our commitment to investment in expansion of the network for all Australians is demonstrated by the very significant contribution and allocated share of the Federal Government's Black Spots program. Following the Black Spots rollout, we will increase our overall footprint to more than 2.5 million square kilometres which we believe is around double that of our nearest competitor.

Our customers enjoy Australia's fastest mobile speeds based on a national average of 3G and 4G speeds. We will continue with our program of world firsts leading the development of new technologies in Australia. Last year, we achieved two world first mobile speed milestones using our new LTE advanced capabilities and launched Australia's first Voice over LTE service which allows users to experience high definition voice quality and faster call connection time. This year, we are working towards achieving peak network speeds of one gigabit in the Melbourne, Sydney and Brisbane CBDs and we will launch Voice over Wi-Fi and Video over LTE as well.

We are also driving towards Next Generation standards in the internet of things with support of the Cat-1 standard in the network and our plans for Cat-M and Narrow Bank-IoT support later this year. We are building our network ready for the future demand of media and content and are at the forefront of developing new architectures for content delivery and new enabling technology such as LTE Broadcast. And you may have seen an announcement from our head of networks, Mike Wright, in London last week where, as Andy mentioned, we have joined a consortium of other operators staying ahead of the game in LTE-B.

Finally, we are already active in our contributions towards the 5G standards and in 2018, we will trial 5G at the Commonwealth Games on the Gold Coast. Like any of our global peers, there will always be issues that arise in such a large and sophisticated technology environment and our customers' demand for data and connectivity will continue to rise exponentially every day as well. I am personally determined to rebuild the trust our customers have in us by meeting, if not exceeding, those expectations every day.

We are absolutely committed to retaining our position at Australia's best mobile network, and we will continue to focus on innovative ways to deliver to a world class standard. Thank you very much for the opportunity to update you today, and I might just invite David Williams and our CEO Andy Penn back up to the stage, and we'll take any questions that you might have. Thank you very much.

MR KOPANIDIS: We will start with Investors and analysts. Sameer, Bank of America Merrills.

MR CHOPRA: Did you get any warning on the network that it was getting overloaded? I was just wondering. It appeared quite sudden; what sort of warning signs were there leading into it, suggesting that the network was getting overloaded and that perhaps resilience should have been considered earlier.

MR PENN: Well, what caused the issues was specific, and so the network wasn't getting overloaded. It was actually the re-registration of customers that were disconnected from the network as a consequence of a particular issue, which Kate mentioned we've addressed the cause of. And then as soon as customers are reconnecting, we're all over that and we absolutely understand – see the patterns of that, and then we're very active in managing the re-registration of customers to get every customer back on quickly.

MS McKENZIE: I think it's very important to be clear there was no issue of overloading. What I was trying to explain was two separate events, a very, very unusual combination of factors that contributed to those events. And what we've done as a result of that is just to go and do a really deep dive into every single different element of the network to see what else could be done.

MR PENN: Does that make sense, Sameer? So this is not a capacity issue within the network. This is a moment in time dynamic when a large number of users are disconnected and then are reconnected at exactly the same time. That's what's been managed, and that's what Kate is saying: that we're both putting some quite sophisticated tooling in place, but also some other software and other changes to basically ensure that that doesn't happen or we can mitigate the extent to which that has an issue in the future.

MS McKENZIE: And maybe I should just add on the second free data day, people downloaded 2686 terabytes of data and the network was basically fine, so I think that tells you we've got plenty of capacity.

MR CHOPRA: The second is, some of the speeds that you mentioned, like the one gig per second, sounds phenomenal. The data limits are not keeping up with the speeds on these networks. Like, if you're on a 10-gig plan, theoretically you could blow through that in 10 seconds. What's being done about addressing the data limits on plans as well whilst you improve speeds on the networks?

MR PENN: Well, I think you're seeing the competitive dynamics in the market. I would say data inclusions have probably quadrupled over the last 12 months, in terms of plans, and I think you will continue to see demand for customers – for more data. I mean, some of the things that we're also doing is obviously – Telstra Air is a great opportunity for people to access their home network data allowances. We're also, as I mentioned in my presentation, bundling in some Telstra Air free data into mobile plans as well. So we're doing a number of things right the way across the sort of structuring of our mobile network plans and go to market plans on how we manage that increased demand for data.

MS McKENZIE: And the only other thing I would add is we're very focused now on the received experience of customers, because there's a lot of different things that can impact that experience. So just looking very closely at what people are now doing on the network and the use cases is a big focus for us, to make sure that the changed patterns of consumption on the network we're ready for, and I mentioned media and content as being one of those areas of focus.

MR CHOPRA: I suppose my question was leading towards – on fixed, you get 20 times the data allowance for a similar price point in mobiles, yet mobiles is delivering much better, faster speeds. What can be kind of done to converge the two and make sure that mobiles is as price-efficient.

MR PENN: Well, that's a very big question and a question that a lot of our engineers spend an enormous amount of time on. But the convergence of infrastructure and converge of networks is something – a dynamic which is absolutely going to play out over the next three, four, five years. You're seeing an emergence of that by virtue of what we're doing on LTE – Voice over LTE, which effectively means that you're taking voice in a mobile network to an IP protocol, and then if we also introduce Voice over Wi-Fi, you're then creating the capacity to effectively take that voice call seamlessly from a mobile network to a fixed network and back again.

So the technological capabilities are there. You're right in pointing out though the economics are very different between a mobile network and a fixed network. It costs more money to provide data allowance and download and capacity on a mobile network than it does on a fixed network, and so the whole industry has to, sort of, think through how do we continue to evolve pricing models and solutions for customers, because, in the end, from a customer's perspective, that's what's most important, and a customer really is not really too interested in, "Am I on a mobile network or am I on a fixed network or am I on a Wi-Fi network?" and so that's definitely where the industry has to go.

MS McKENZIE: And I think we're thinking very carefully about that, particularly in things like our connected home products and the home environment in particular. So expect to hear more of that down the track.

MR CHOPRA: Thank you.

MR KOPANIDIS: Craig from Deutsche Bank.

MR WONG-PAN: A question for David. Kate mentioned that you've looked at the network and, in comparison to other networks globally, it's world class. Could you just talk to why you categorise it as world class?

MR WILLIAMS: Sure.

MR WONG-PAN: And also the issues that we've seen, have you seen that – is it a sort of frequent occurrence in other places, other networks around the world?

MR WILLIAMS: Yes. So let me answer the first bit. So when a company, a wireless company, focuses itself on quality, it's a long-term play, and there's a handful of those networks around the world. They tend not to be the big household names; they tend to be very regional. But what they do is, they have kind of three areas where they concentrate.

The first is, when spectrum comes up for auction they always try and buy the best blocks, or the most efficient blocks of spectrum, and they spend money on that. They also have a very rigorous relationship with their suppliers. It's a partnership. Somebody who builds your mobile network, it's a very strong partnership. So they concentrate on that relationship and they handle it very well, and then in-house technology capabilities.

Telstra has all those, as does others in the network, in the world of networks. So that's what differentiates. But it's consistent build-out, it's consistent focus on quality. It's not peaky. Like others they'll spend two billion this year, and then they won't spend any for the next three years. That doesn't get you to where Telstra is and others. It's consistent investment, consistency in being the best, because quality counts. Quality is their differentiator.

Secondly, outages are very common across the world, and looking through our studies, actually Telstra have been very, very well placed over the past few years. The fact that all these occurrences happened within two months is kind of the reason I'm here. If you have had one in January, one in June, one in September, we probably wouldn't be having this conversation. It's just unfortunate that you got a number at that same time, and then we went through this in-depth study into operations, engineering, and what needs to fixed going forward.

There's lots and lots of outages around the globe, and we're often brought in to do this kind of work, but not often in the public domain. We do this kind of work in the background, and it's not often shared at investor days.

MR WONG-PAN: Okay. And then, just one more question. Andy mentioned that net adds had been tracking similar to the first half, there have been still a lot of complaints though, I guess, like across the media, just people voicing their opinion. Could you talk to sort of how churn has been looking then. So if your net adds have been fairly stable, have you been seeing much change in churn numbers?

MR PENN: Well, to be honest, I haven't really got the churn numbers with me, and we will update those at the full year. But if you, sort of, just look anecdotally there's no doubt that customers were disappointed and felt a bit let down by virtue of the fact that we had a couple of interruptions, and I think it goes to Dave's point that we have enjoyed a very strong period, not by accident; by the function of investing in all the things that Dave has mentioned.

But the reality is, it's a complex, sophisticated, very large scale network. The volumes that we saw on the data free Sunday of 2.7 terabytes is about 3.4 million HD movies being downloaded in a 24 hour period. It is phenomenal, and it's growing at 50 per cent per annum, and I think it's that, if you like, the reaction from customers that we did see, I think, is a measure of how dependent people have become on the network and the network infrastructure.

So, look, I think it's probably a bit early to tell whether or not that's actually feeding through into churn, or feeding through into net adds. As I mentioned, net adds at the moment seem to be roughly in line with what they were for the first half, but I'm not saying there won't be an impact. There may be an impact, and I think we will be in a better position to provide that at the full year in August.

MS McKENZIE: And I guess I would just say our singular focus is on recapturing that trust and we're going to do whatever it takes to make sure that happens.

MR KOPANIDIS: Eric from UBS.

MR CHOI: Just a follow up on Craig's question. Maybe a leading indicator of churn is NPS, so I was wondering if you could comment on how that NPS score has moved.

MR PENN: Well, I think I would just sort of say the same thing, that no doubt the customers were disappointed and lost a bit of confidence in the network as a consequence of the network interruptions, so – yes – it will have some impact on NPS for sure, but we will be able to provide some more information on that at the full year – once I think we've got a more sort of measured assessment of the situation.

MR CHOI: Sure. And the second question is just around the consumer versus sort of business and enterprise mix. Have these sort of recent network disruptions had any impact on that sort side of things, especially as

Optus and Vodafone are starting to focus more on the enterprise customers as well?

MR PENN: Well, I think they – both customer groups are affected. I can't – I wouldn't say one is worse than the other or more than the other. I think both – for different reasons, both said the customers are using the network for different reasons.

MR KOPANIDIS: Fraser. Credit Suisse.

MR McLEISH: Thanks. I've got a sort of non-network question, but just – can you update us on your latest thoughts, Andy, on bundling fixed broadband and mobile, particularly in the consumer space. You haven't historically really done it – I don't know if you've seen the new Optus plans out today, but they're doing I think $60 for unlimited fixed broadband if you're mobile customer. Essentially, a $20 discount. It's something that's talked about all the time, but you guys haven't really done it. Can you just update us on why and if that's likely in the future.

MR PENN: Well, I won't comment on what our plans are because this is public and obviously there's a competitive sensitivity to how we think about plans and how we think about structuring, but historically we tended not to bundle fixed and mobile because they tended to be very different offerings. And also the fixed service tends to be a household purchase, whereas a mobile plan tends to be an individual purchase.

We are doing some stuff around Wi-Fi and you can see how with investing very heavily in Telstra Air which we think is a great strategic differentiator. We're using that both in fixed and in mobile, so, as it gives fixed customers access to Telstra – their fixed allowance when they're out and about and now we're actually bundling that into mobile plans as well. But I don't think I should comment further, Fraser, given that this is public and wouldn't be appropriate for us to disclose our sort of bundling and marketing and go to market plans in a public forum.

MR McLEISH: Sure, yes. But is it fair to say it's not something – you think it fundamentally doesn't work; bundling. That consumers don't value having those two products.

MR PENN: I have no doubt that there's certain cohorts or certain situations where it may work.

MR McLEISH: Right, thanks.

MR KOPANIDIS: Ian Martin.

MR MARTIN: So just to – you mentioned Telstra Air. David, did you look at Telstra Air? There were similar issues there. How does that stack up – if you looked at it, how does that stack up against other Wi-Fi networks and the downloads on the data-free days, does that also include downloads over the Wi-Fi network or was it purely mobile? And the backhaul for Wi-Fi, does it use mobile backhaul or fixed-line backhaul?

MR WILLIAMS: So let me take a stab at Telstra Air. We didn't specifically look at Telstra Air. We worked our way through the five incidents that were seen as being a major issue. Having some experience of Wi-Fi – I built the Wi-Fi network for the cable networks – it looks pretty – it looks okay. It runs on a very stable network. But we really concentrated on the outages that affected customers.

MS McKENZIE: And the download data, that was download data just from the mobile network.

MR MARTIN: Right. So you don't really see the same kind of issues in the Wi-Fi network and Telstra Air. No.

MS McKENZIE: No. Well, by its very nature, the Wi-Fi network is quite different. It's a sort of on the go.

MR MARTIN: But you're accessing it via mobile most of the time.

MS McKENZIE: Yes, that's true, but it's a separate network.

MR MARTIN: Right. So when someone accesses the network over Wi-Fi with a mobile phone, that traffic is going over a fixed-line network basically, fixed backhaul.

MS McKENZIE: Yes.

MR PENN: Yes. The only thing that's mobile about it is the device that's using it.

MR KOPANIDIS: Raymond Tong.

MR TONG: Just a question on, I suppose, ARPU and price premium. Superior networks being the pillar that you can charge that premium in the past. How confident are you going forward that you can continue to charge that and, I suppose, what other differentiating factors do you think you can put into that to grow ARPU in the future just given, I suppose, mobile sub-growth has slowed, mobile revenues have slowed, and just the outlook for the overall earnings going forth.

MR PENN: Sure. Look, I think – I mean, fundamentally nothing has changed. I mean, we have the best network in Australia. We're continuing to invest in it. Kate has made the point it has got double the coverage, at least, of our next nearest competitor. It's a better-performing network. It's frankly more reliable. We've had a few issues over a short space of time, which have obviously concerned us and impacted customers' confidence, but they need to be put in context of the broader quality of the network and the investments that we've made and the comments that Dave has made.

And we're going to be making some further changes and some further investments which are actually quite material in function, albeit not overly material in costs because predominately they're software orientated as opposed to big, sort of, hardware, sort of, solutions. So we believe we have the best network and that it can continue to be a really important strategic differentiator for us and we're going to continue to invest in that because that's what we believe customers want.

And we're not in a world that's standing still. Traffic is growing at 50 per cent per annum, and so you have to have a very dynamic response to that. So that's what we're going to do, that's what we're going to invest. We out-invest everybody else, and as a consequence of that, to make the economics work, we obviously need to have a premium, and I believe that over time – and as has been in the past, customers will be happy to continue to pay a premium for a better service, and that's our strategy and nothing has changed that.

On ARPU, again, all I would say is that nothing has really changed from the first, sort of, half of the year, as you would expect, additional data revenues have slowed in growth because of the increase in the amount of data which has gone into bundles across the industry, on the one hand. On the other hand, we continue to see an increase in the minimum monthly contribution.

MR KOPANIDIS: We will take a couple of questions from the conferlink line. Brian Han from Morningstar.

MR B. HAN: Hi. Good morning. Thanks very much. I just have one simple question. The $25 million investment to improve the network recovery time. Can you give us a layman's sense of what the magnitude of that improvement will be? For example, if, say, 1,000 people can re-register at the same time now, what would the new investment allow, like, 2,000 or 3,000 to re-register at the same?

MR PENN: Let me have a go at answering it a different way, and then Kate may want to add, as well. But - - -

MS McKENZIE: sort of millions, probably.

MR PENN: Yes, yes. Historically, the way in which mobile operators around the world have thought about resilience is in traditionally what's called the five nines. So it's about network availability 99.999 per cent of the time. That's traditionally how operators have thought about it. We want to change that and actually raise the bar on that, because as Dave said, I mean, in the end, with the best will in the world, even when you invest as much as you possible can and you do everything you possibly can, there are – stuff does happen.

And so, therefore, we want to layer on an additional measure of resiliency and recovery which is not only to have sort of the five nines, 99.999, but in addition to that target a minimum recovery time, that if you do have an incident then in addition to that actually the recovery time is at a standard which is much quicker than typically would ordinarily be the case. And to achieve that we have to deal with exactly the dynamic that we've been talking about, which is this re-registration thing which – Kate, I don't know if you want to add what that means from a, sort of, a magnitude perspective.

MS McKENZIE: Well, I think if you look at the incidents, it's something like 16.9 million devices that are registered or capable of being registered on the network at any given point in time. In the two outages that we had, it took us two hours to re-register everybody, and we would expect to be very significantly improved from there. But I'm not going to put a number on it, because there's too many variables in terms of things that might happen.

MR PENN: But I mean, just to put things in context, I mean, as I say, stuff happens. I mean, one of the incidents was the consequence of an undersea cable moving off the coast of Japan and shifting on a reef, which created a small fracture in some of the fibres. That's actually one of the root causes that needed to be fixed.

MS McKENZIE: It's fixed now.

MR PENN: But I mean, the point is that we're designing it so that actually when that sort of stuff happens, the re-registration is really easy but my point is you're never going to be able to sort of plan for a world where stuff like that doesn't happen. What you can do is structure and optimise and manage the network in such a way that you mitigate the risk that that ultimately has a knock-on impact on the network and, to the extent that it does, then people are reconnected really fast.

MR HAN: Okay. Thanks.

MR KOPANIDIS: Last question from Andrew Levy, of Macquarie.

MR LEVY: Thanks. Kate, just a question – as Andy alluded to, the $50 million isn't a lot of money and I know it's all easy in hindsight. But in terms of the update that you're putting through for $50 million, is that stuff that you considered and hadn't got into the capex envelope because it wasn't deemed to be worthwhile? I just wondered if you could give some background on sort of where the decision processes were around that investment prior to the outages?

MS McKENZIE: Well, I guess I would answer that by saying we have had such a long period of absolute stability in the network. We have obviously prioritised based on our experience. We've been pretty happy, actually. There's sort of two buckets of where the capital's going. One is on more real-time management capability. We've got some of that capability. Until these incidents, we probably would have said that was adequate, and now we're saying with new technology, more complexity in the network, what we can see going forward, we need to do more.

But it's not that we thought about it before and decided not to. It was just not really on the list of priorities, because the network's been so stable for so long. In terms of the recovery time, that's actually something pretty new, and it's not something that has been – Andy talked about the fact most people do five nines reliability, which is a design standard for how you set your network up. We're trying to say that, as well as focusing on that, we want to put a new focus on recovery time when the unexpected occurs, and that's actually something relatively new.

So we're still figuring out exactly what equipment we're going to buy and exactly what we're going to do to deliver that, but it's a really new area of focus. So again, it's not something where we said we could have done more or we should have done less. We thought we were in a pretty good spot and when these things happen, you go back and question yourself and say, "Let's do better now."

MR PENN: And I think that's absolutely right, Kate. I mean, just to put the $50 million in context, I mean, it's a lot of money. Relative to the amount we spend on capital expenditure, perhaps it doesn't appear that way. I did make the point, though, that it is predominantly focused on sort of soft improvements or software improvements as opposed to physical hardware and obviously the physical hardware is what drives a lot of the capital investment in both our fixed and our mobile networks.

And also, in the end, you would expect it not to be overly significant because the quality of the network is already proving itself over a long period of time. This is, as Kate says, the opportunity to really just raise the bar even further in conjunction with some pretty cutting edge and interesting modelling and tooling technology that we can deploy as well.

MR KOPANIDIS: Okay. That concludes this part of the investor Q&A. Jason to moderate the media Q&A.

MR LAIRD: Thanks, Peter. All right. We will come back to the media portion, so our questions from the room first and then on conferlink. Are there any questions from the room? Max.

MR MASON: Hi again.

MR PENN: Hi, Max.

MR MASON: Would you be able to tell me some of the things that you're going to do to change that perception because often consumers will remember the incident and not the make good.

MR PENN: Well, I think in the end what's most important is that we deliver a reliable and continue to deliver the best network experience in Australia. I don't think there's marketing that we should be doing that sort of changes people's perceptions. I think in the end we've just got to do what we always do best, which is deliver an outstanding experience on the network and I think people will quickly put those couple of incidents in context and continue to sort of experience the superior experience from Telstra.

MR MASON: Well, considering the amount of data that was used on the extra days, would you consider increasing the data limits?

MR PENN: Well, I think we have been - - -

MR MASON: Increasing further?

MR PENN: Well, as I said before, I'm not going to comment on our sort of marketing plans in a public forum as you would appreciate, but I think behind your question is there's no doubt that customers are increasingly leveraging the mobile network, using more data and they're anxious to continue to benefit from that. And so the challenge for us is how do we continue to provide them a great experience and more data. Telstra Air – well, we have been increasing the data allowances. I mentioned as well we're going to add 10 gigs to all mobile plans through Telstra Air as well, so there are multiple different ways that we can do that and we will continue to.

MR MASON: Thank you.

MR PENN: Thanks, Max.

MR LAIRD: Okay. We're in the very strange situation; there are no calls on the phone. So I will then hand back to Peter for the next portion. Thank you.

MR KOPANIDIS: So thank you, everybody, for your attendance. That concludes our first Investor Day for 2016.

ENDS