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Australia – The future of the wholesale market

Good afternoon everyone.

My name is Kate McKenzie and I am the Group Managing Director of Telstra Wholesale.

My boss, CEO Sol Trujillo, is passionate about being a market leader, passionate about innovation and committed to building shareholder value.

He also tells it like it is.

I'd like to provide you with a bit of background so you get a picture of where our company is headed.

When Sol joined the company in July 2005 his assessment of Telstra – Australia's largest telco and one of the country's largest companies – was blunt.

There was no differentiation in the Australian marketplace. Competition was based on price. Telstra was losing market share. It was losing high ARPU customers. Costs were growing. We had three mobile networks. Telstra the incumbent was neither leading nor innovating.

So he developed a strategy:

- High speed wireless broadband;
- Backed by 1-click, 1-touch, 1-command simplicity;
- On any screen;
- In real time;
- Integrating not only our services, but our networks and channels.

On November 15 2005, Sol announced a five year plan to transform the company.

Since then Telstra has built a national 3GSM wireless network, which covers 99 percent of the Australian population, in a record 10 months.

The 850 MHz spectrum gives it the geographic breadth and in-building depth of coverage unparalleled by our peers. Speeds on our network are unsurpassed in the world.

The current network downlink speed is 14.4mbps (3.6 at launch), and we have plans for network speeds of 21mbps later this year, 42mbps in 2009 and a roadmap to 100Mbps further down the track.

During the past two years we have built the world's fastest wireless broadband network – and we have also developed applications which have encourage customers to use it.

Take a handful of the applications developed for Telstra's ISP BigPond:

- BigPond Movies with over 30,000 titles is Australia's largest supplier of online DVD rentals and legal movie downloads.
- BigPond Music is the biggest Windows-based music download provider in Australia
- BigPond TV online - four live 24/7 online TV channels (Aussies football and rugby, Sport and Music) plus thousands of sport, games, music and movies videos on demand.
- BigPond Sports Weekend - 18 hours of live sports show streamed online and on Next G mobiles.

Differentiation has been the key to adding value.

We have more coverage, faster speeds, one-click usability, more content, more services, a superior infrastructure, the networks, the network integration and the systems which have enabled us to drive new-wave revenues and help us deliver our key strategic imperatives.

Our transformation is revitalising every aspect of the business and we now rank at or near the top of our global peer group on many key financial performance measures.

In the first half to 31 December 2007, when compared to the prior corresponding period, profit after tax increased 13% to \$1.9 billion.

Revenue growth across Telstra's customer-facing business units and key product segments, was strong. In mobiles we continued to gain revenue market share; our retail broadband market share and ARPU increased - a rare double among our global peers - and we continued to add retail PSTN lines.

We went after high-speed wireless broadband, spending \$1.1 billion of our own capital to build a national 3GSM 850 MHz network and we delivered – not just for our customers but for our shareholders too.

At this juncture you might be asking, what does this good news story about Telstra have to do with Telstra Wholesale?

The fact is that Telstra is an innovator.

Innovation isn't confined to the wireless broadband network.

We have previously announced plans for the fixed network too, and have put a plan on the table to spend \$4.1 billion of our own money to build out a fibre to the node network to 50 percent of Australian homes and 60 percent of Australian businesses.

This fibre network, which would be the largest single telco infrastructure investment in Australia's history, would be an open access network so that wholesale customers will be able to offer a range of competitive high-speed services.

The potential benefits afforded by FTTN are immense and would open up a new world of commercial opportunities for Australian industry players operating in the IT, telco and media space.

Australia's new Federal Government elected last year is working through options for a national fibre build out. Telstra welcomes

this approach, and will work with the government as it works through its options.

Like many in the industry we are eagerly awaiting this outcome.

In this context – some facts about the Australian domestic wholesale telco industry.

It is worth \$4 billion a year

We have about 60% of the market.

There are about 467 ISPs.

There are 157 carriers.

And 23 mobile resellers in the market.

Competition is intensifying and further consolidation via acquisition is likely

The top six players - Telstra Wholesale, Optus Wholesale, AAPT/PowerTel, Soul, Vodafone, Amcom.

Innovation such as FTTN is a vital plank for the future of not just Telstra Wholesale but the entire industry.

Telstra wholesale has about 326 customers operating domestically and about 22 customers operating globally.

We have about 80 products in the market – more than any other wholesale provider.

These are categorised into four main portfolios

1. Fixed telephony (56%)
2. Mobile services (5%)
3. Internet (23%)
4. IP and Data Access (16%)

Telstra Wholesale has revenues of \$2.7 billion – making us by far the largest wholesaler in Australia.

We are the biggest and the best in the market and we intend to stay that way.

How?

The reliability and coverage of our network, the quality of our systems, the end-to-end service we provide and the products we offer combine to create value for our customers.

At Telstra Wholesale we focus on the things we do better than other providers in the Australian telecommunications market:

- our service capability; and
- the expertise of our people;

We have worked hard to improve the accuracy, efficiency and timeliness of our customer service through the development of a number of online customer portals offering 24-hour self-service capability.

These portals provide customers with direct access to operational systems, including service ordering, activation, fault tracking and billing.

- We process approximately 9.4 million broadband service qualifications online every year
- our 24-hour self-service capability allows some 3 million orders to be submitted online annually, and
- Service qualifications which once took two days are turned around in an average of six seconds.

Telstra Wholesale continues to set new service benchmarks, with more than 98 per cent of all customer orders actioned on the same day they are received.

Our people offer our customers the skills and experience of an expert team, from our highly-skilled technicians and call centre staff, to our dedicated account management teams.

Our internal research tells us that our Global Carrier customers value quality, reliability, network diversity, reasonable price and technical expertise.

They value closer supplier relationships and want relationships with peer-to-peer carriers - as many are incumbents in their own countries.

They target top tier customers - Fortune 500 typically - and differentiate themselves on the ability to customise to meet complex end user requirements.

They value the product breadth, reach and network ubiquity that only Telstra can offer.

Our Global Carrier customers rate our performance very highly in these areas.

After all, it is their brand at stake and they want to know they're able to carry their customer traffic over a reliable and stable network and for the long-term with a financially strong carrier.

And across the board our customers value the breadth and depth of our service which helps them to take costs out of their own business and give them the confidence that they can service the needs of their end users.

As many of you in the audience will be aware, I am a former head of Regulatory at Telstra.

I have advocated long and hard for reform of our competition regime which was established when the industry was de-regulated

in 1991, and is now out of step with the commercial realities of 2008.

I say that because there are those who operate in our industry in Australia who have become dependant on the regulator.

Rather than focussing on where technology trends are taking the industry, or what consumers want, they focus on how the regulator can help them get access to Telstra's network at the cheapest possible price.

They deploy short-term solutions and arbitrage driven investment decisions which stifles network modernisation.

So it is long and convoluted access disputes that are the focus of some.

Telstra has a very public stance on the regulatory regime in Australia and while it has been controversial, it has been about encouraging the industry to invest in its own infrastructure.

We lost a recent High Court challenge and this was a disappointing outcome but we have a long held view that there needs to be a shift in thinking by the industry, away from seeing Telstra as the single provider of access to all, and toward creating a market dynamic which encourages a more competitive commercial environment.

I truly believe there is a future for all players in this industry but the challenge for all of us is to look forward and stay ahead of the game.

Those willing to invest in their own infrastructure and those who are going to focus on where the industry is headed will be the winners.

As the head of Wholesale my role is to plan for the future and help the industry move forward.

At this point in time the industry is at an inflection point – technology is changing.

For example, the established trend towards IP-based services is continuing, particularly in the business and residential broadband markets.

Rather than focus on cost per bit, successful long-term participants in the industry are positioning to differentiate at the retail level, while integrating these various delivery platforms to deliver a great customer experience.

In response to these trends we at Telstra Wholesale have recently launched an intercapital Carrier Grade Ethernet offering and we continue to add features to our DSL product.

It's just one example of how we are planning ahead.

We as an industry have to look forward – not back.

To that end, earlier this month Telstra Wholesale sponsored the national industry body Communications Alliance's inaugural Broadband and Beyond conference.

More than 150 representatives from global and local telco, media and IT industry attended to debate and discuss the business opportunities that convergence of communications, media and information technology is creating.

It was a huge success, a bold step forward for the industry and Telstra Wholesale was proud to support it.

So at a big picture level, you can see that Telstra is a company with a clear strategic vision, with strong leadership and an insatiable appetite for innovation.

We are prepared to back ourselves and invest our money to improve the service we provide our customers and our most recent half-year financial results prove that we don't just talk about it – we actually deliver for our customers and shareholders.

Now as I move to conclude I would like to drill down and highlight three distinct examples of how we are delivering unique value to our Telstra Wholesale customers.

As the incumbent telco our wholesale customers can be confident in our robust and resilient network.

Telstra Wholesale and Verizon Business have a commercial relationship over 12 years and recently signed a long-term deal for Backbone Transmission between Australia's largest capital cities.

The arrangement interconnects Verizon Business' Points of Presence across Australia.

The agreement is one of a series of recent initiatives Verizon Business has taken in the Australian market to support the evolving voice and data needs of its multinational customers based in, or operating in, the country and signals an ongoing business relationship.

Telstra Wholesale is in the telecommunication business for the long-term and Verizon Business can be confident Telstra's robust Transmission network will provide the required reliability and diversity to serve its customers many years into the future.

As new players and new business models emerge we are able to provide systems support and technical experience to smaller players.

Telcoinabox is a smaller customer of ours which started in 2003 and now has more than 100 resellers operating predominantly in the SME/SMB space. They announced a new \$60 million dollar deal with us last week

The company sells a suite of products which allow anyone to become a service provider under their own brand.

Last year the company was named by *Business Review Weekly* magazine as the Fastest growing Franchise in Australia and ranked number seven on a list of Growing Company's in Australia.

Telstra Wholesale have provided advanced, custom built, web-based "1 system" billing and CRM interface to provision, manage and bill both end users and Service Providers.

Telstra Wholesale also developed a mobile product solution which resulted in the company winning a major long-term profitable contract.

With a focus on impeccable account management we provide a high level of support into all levels of their business and deep understanding of their business, thus ensuring a secure and long-term commercial alliance.

People Telecom was formed in 2000 and have been a Telstra Wholesale customer since inception. People Telecom offers a comprehensive suite of business-focused telecommunications solutions Small-Medium Enterprise (SME) customers, centred around value delivery, flexibility and customer service excellence.

People Telecom's target market is SME and high-end consumer customers offering fixed voice, VPN, business grade and consumer grade broadband connectivity, mobile voice, data and wireless internet solutions

The value that People Telecom receive from being a Telstra Wholesale customer? Access to some of the nation's premium network offerings.

Finally I would like to turn to Telstra's presence in the region.

We are a leading global carrier boasting strategic global network assets focussed on the Asia/Pacific region delivering a range of data and IP services to our carrier customers.

We have made significant investment in the Asia/Pac region over the past five years and further investment is planned in the years ahead.

In the region, which is experiencing a dramatic growth in traffic as a result of the economic booms in both China and India and the resurgence of local economies of Thailand, Malaysia and Indonesia,

Telstra is able to respond to the needs of its wholesale and retail customers.

An example of our commitment to servicing the region is construction of the 9,000 kilometre Sydney/Hawaii cable is on track and on its completion in October this year will be able to provide the fastest and most direct route from Australia to the US.

It will become the fourth leg of a highly resilient network architecture between Australia and the US delivering data and IP services.

We have also announced investment in the Asia America Cable consortium which reinforces our future commitment to providing solutions and delivering infrastructure to our retail business and wholesale carrier customers.

2008 is filled with challenges from a wholesale perspective.

With the prospect of an FTTN network build out, competition will shift from, "who can pull the price lever down the lowest on access", to an environment where we all face the same access costs.

This will create a competitive environment based on, who can create and deliver the most interesting and dynamic applications and services for customers.

For a company like Telstra which values and also invests in innovation this will be a wonderful and creative place to be.

We welcome the opportunity to compete with existing and new players who are as passionate as we are about delivering value to our customers and shareholders.

Thank you for your time today.

I would welcome answering any questions you may have.