AUBCC Sydney 2015 - Case 1

Telstra

Client:

Telstra

Case Writers:

Si Chen – Telstra

Nicholas Leung – Oliver Wyman

Dear esteemed consultant,

Telstra Corporation Limited ("Telstra") is Australia's largest telecommunications and media company which builds and operates telecommunications networks and markets voice, mobile, internet access, pay television and other entertainment products and services.

With the rapid growth in the adoption of digital technologies and applications by consumers, enterprises and governments, there is an increasing demand from customers for high-quality, reliable communication services. Telecom operators are investing significant capex in new networking technology and capabilities, yet revenues are stagnating as "over-the-top" (OTT) players such as Skype, Facebook and YouTube are gaining popularity.

In response to industry and market pressures, Telstra has defined three core pillars in its corporate strategy (see part A). The third pillar, "Build new growth businesses," focuses on opportunities where Telstra can leverage its core capabilities and assets to pursue growth opportunities that will shape the future of the business. A key priority has been the Asia growth strategy. In particular, Telstra is interested in leveraging its strong connectivity foundation in the region to deliver integrated solutions to its enterprise and wholesale carrier customers, as well as pursuing in-country investments in innovative technology and solutions which complement Telstra's core capabilities to enhance its value proposition to its enterprise customers.

Notable Asia developments over the last 12 months include:

1. Acquisition of Pacnet for USD 697 MM, which includes the largest privately owned intra-Asia cable network, adds 29 data centres and 109 points of presence within Asia, and includes a joint venture in China
2. Joint venture with Telkom Indonesia to create telkomtelstra, aimed at launching a suite of Network Application & Services (NAS) solutions to enterprises and MNCs in Indonesia
3. Launch of muru-D® in Singapore, Telstra's accelerator program for start-ups focused on technological innovation
4. Sell down of stake in Autohome, the leading online platform for car buyers in China

Amidst this backdrop of corporate activity, Telstra's team would like your advice in clarifying their uncertainties in the current business situation facing Global Enterprise and Services:

a. **Prioritization within third pillar to build growth businesses:** What opportunities should Telstra prioritize, either within the existing developments it is pursuing, and/or other opportunities?
b. **Execution:** How can Telstra execute these priorities and what investments does it need to make to support the growth agenda?
c. **Impact to Telstra:** What are the benefits in pursuing these opportunities and how do they link back to Telstra's core capabilities and vision?

The team at Telstra looks forward to receiving your submissions and discussing your key findings with you regarding the future of Global Enterprise and Services.

Best regards,

Si Chen, Nicholas Leung

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A. Overview of Telstra

OUR PURPOSE

To create a brilliant connected future for everyone.

To create

The brilliant connected future won't happen on its own. It has to be created. Telstra can bring together the parts to create it.

A brilliant connected future

This is our aspiration for every one of our customers. And in every market in which we operate.

For everyone

We can only create such a future for everyone when enough people can access technologies that create social, economic and cultural change.

OUR VISION

To be a world class technology company that empowers people to connect.

OUR STRATEGY

Our strategy is focused on driving growth and creating long term shareholder value. It has three key pillars.

Our Strategic Priorities		
Improve Customer Advocacy	**Drive Value from the Core**	**Build New Growth Businesses**
We're dedicated to improving customer service and creating advocates in all our customers.	We strive to deliver customer and revenue growth, network leadership and productivity improvements through simplifying our business.	We continue to look for new opportunities in new geographies and in new business sectors.

OUR VALUES

At Telstra, we have five values. Our values express what we stand for and are core to our business. As a values-led organisation, they shape our peoples' decisions and actions. They guide how we work together. We align everything we do with them.

Show you care	Better together	Trust each other to deliver	Make the complex simple	Find your courage

WHO WE ARE

An iconic Australian company with a rich history – dating back to 1901 →

371 Retail Stores

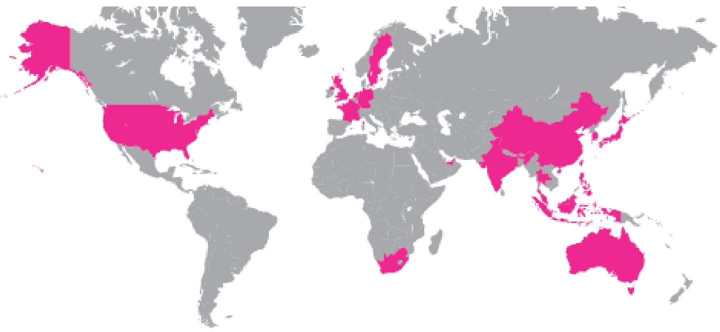
84 Business Centres

137 Business and Enterprise Partners

18,700 Retail Points of Presence

36,000 TELSTRA EMPLOYEES ACROSS 20 COUNTRIES WORLDWIDE

MORE THAN **2,000** network points of presence across the globe



WHAT WE DO

We help customers connect to the people and things that matter most to them.

Telstra is Australia's leading telecommunications company, offering a full range of communications services.

We believe the more connected people are, the more opportunities they have.

We aim to build technology and content solutions that are simple and easy to use.

We have built Australia's largest national mobile network, with faster speeds in more places.

We strive to know and serve our customers better than anyone else – offering a choice of not just digital connection, but digital content as well.

We actively seek out new growth opportunities and new technology in Australia and around the world, with our international presence spanning 20 countries, including a growing footprint in Asia.

OUR BUSINESS

Retail

Consumer	Business	Media	Health
Providing a portfolio of Fixed voice, Data, Mobile, Media and value added products to customers nationally including Post and Pre-paid mobile and mobile broadband, PSTN, ADSL, HFC, and NBN.	Serving Australian small to medium businesses as a trusted advisor, providing products and bundles including fixed, mobile, data and IP, business software applications and Networks Applications and Services (NAS).	Portfolio of media content and platforms including subscription TV, streaming video, music, and leading sport and news content across fixed and mobile connectivity.	eHealth solutions for primary care, aged and residential care, hospitals, radiology and pathology, pharmacy, Indigenous care and telemedicine.

Global Enterprise and Services

Serving our global enterprise and government customers with fully integrated end-to-end solutions and products, including: innovation, product development, telephony, mobile and data connectivity, IP networks and cloud. Licenses in Asia, Europe and the US.	Network Applications and Services, including: managed network services, collaboration, cloud, unified comms, security services and a range of software as a service solutions.	Responsible for the Telstra Software Group (TSG), focused on intelligent video solutions and muru-D®, a start-up accelerator program.

Wholesale

Australia's leading supplier of wholesale telecommunications services across fixed, data and IP, mobiles, facilities access and NBN.

Operations

Responsible for the planning, design, engineering, construction, operation, maintenance, service installation and restoration of Telstra's networks and information technology. The group is also responsible for the company's innovation portfolio, encouraging company-wide innovation and creation of new service opportunities.

1 Source – Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2014 – 2019, White Paper, 2015 www.cisco.com

B. Growth and International Expansion

Building new growth business

Our strategic growth plan is designed to position the company for continuing success into the future. Investing in new businesses and growing telecommunications services in Asia supports our growth ambitions, and significant progress has been made this year. We have made a number of acquisitions, including Pacnet Limited, a provider of connectivity, managed services and data centres in the Asia Pacific region. The Pacnet acquisition increased the scale and capability of our fixed infrastructure, network density and reach across the region, as well as our customer base and operational capability. In a recently published Gartner report on network services in the Asia Pacific, as a combined entity, Telstra and Pacnet were ranked number one for low-latency and high capacity networks, with the best submarine cable infrastructure in the region. We announced our joint venture (JV) with Telkom Indonesia in the first half of the year. The JV launched a suite of Network Applications and Services (NAS) in the second half, for domestic enterprises and multinationals operating throughout Indonesia. Another growth opportunity, Telstra Health™, was formally launched during the 2015 financial year and will develop and deliver innovative technology solutions across the health industry.

1. US $697m Acquisition of PACNET including the largest privately owned intra-Asia cable network, including 29 data centres and 109 points of presence
2. Over 1.2B invested in acquisitions including a controlling stake in 15 new businesses
3. Launching Indonesian Joint Venture TelkomTelstra with Telkom Indonesia
4. Increased ownership in OOYALA to 97.3%
5. Launched muru-D® Singapore
6. Increase of 23.2% NAS revenue
7. Formally launched Telstra Health and continued to build capabilities

Our strategy for our growth businesses is designed to realise opportunities in new portfolios and to pursue growth opportunities that leverage our existing strengths. The strategy focuses on our Network Applications and Services (NAS) portfolio, Asian growth and longer term growth opportunities such as Telstra Health, Telstra Media, the Telstra Software Group (TSG) and Telstra Ventures.

Network Applications & Services (NAS)

The NAS portfolio provides our business, enterprise and government customers in Australia and internationally with managed network services, collaboration and security services along with a range of software as a service solutions. With another year of strong growth, we continued to make progress in growing scale and regional capabilities while making progress improving profitability for our NAS business, with revenue growth of 23.2 per cent. During the year we established partnerships with leading global technology partners like Cisco, Amazon Web Services, VMware and IBM to expand our cloud services and deliver future innovation. We also acquired Bridge Point, one of Queensland's leading providers of information, security, networking and data management solutions as part of our strategy to accelerate Telstra's expertise in emerging technologies.

Telstra Health

Telstra Health was formally launched as a standalone business unit in October 2014 and is working to become Australia’s leading provider of integrated eHealth solutions. We are creating new solutions that leverage Telstra’s existing strengths in connectivity and build on our investment in successful eHealth companies. By partnering with the health sector, our aim is for these new solutions to bring the digital revolution to healthcare. Telstra Health made a number of additional acquisitions and investments during the year, including global health analytics firm Dr Foster, aged care software vendor iCare Health, hospital software vendor Emerging Systems, GP desktop and hospital software vendor CloudMed.

Telstra Software Group (TSG)

Software will continue to be a key focus area as we drive our growth for the future in new technologies and new technology companies. The TSG aims to create long term global growth in markets adjacent to Telstra’s core business, where software disrupts traditional business models.

Ooyala

A key milestone for TSG was the acquisition of Ooyala, a Silicon Valley based leader in video streaming and analytics. Ooyala has a fast growing global customer base of large-scale broadcasters, operators, media companies, enterprises and high profile enterprises that use Ooyala to build more engaged and more profitable audiences. We increased our investment in Ooyala, building on the stake already held by Telstra Ventures Group. Our ownership interest is now 97.3 per cent. We have since enhanced Ooyala’s capability by acquiring Videoplaza, with its video ad-serving platforms and programmatic trading solutions, and Nativ, which offers cloud based media logistics and workflow software.

Telstra Ventures

Telstra Ventures, our corporate venture capital group founded in 2011, continued to invest in breakthrough companies that are strategically important to Telstra. Telstra Ventures invests in high growth opportunities offering technology and solutions that leverage Telstra’s assets and enable us to offer new products and services to our customers. For example, we work with Whispir*** and DocuSign to sell their products into Telstra’s business, enterprise and government customer base. During the year, we made nine new investments. Telstra Ventures’ portfolio now consists of investments in 20 companies in Australia, the United States and Asia.

C. Industry Context

Telecommunications: a sector in the midst of transformation

The telecommunications industry has evolved radically in the past 10 years as data-hungry customers with smart devices consume more and more bandwidth. Over this period, operators have expanded their service portfolios and overhauled their price plans to meet explosive demand, while rising capital expenditures underline the ongoing imperatives to upgrade network capabilities. While many players are diversifying their revenue streams, ensuring that new services deliver healthy margins remains challenging. At the same time, over-the-top (OTT) players are also expanding the scope of their offerings, disrupting different industry verticals in the process. All entities in the digital ecosystem are now seeking new points of differentiation in order to maximize their share of customer spend. As a result, issues of competition and collaboration have never been more pronounced. While operators still enjoy a majority of ecosystem revenues, OTTs have grown their share to 10% in the space of a few years, and competition in retail and distribution is becoming more intense.

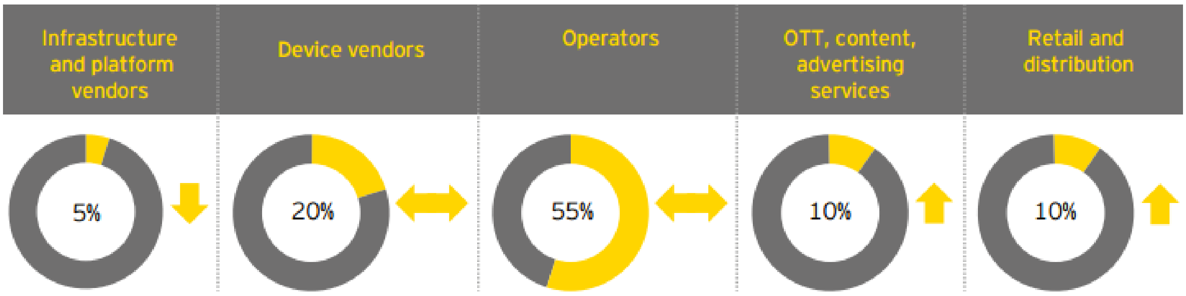
Plenty of digital growth opportunities but profitability pressure persists

Promising growth opportunities exist across information and communications technology (ICT). M2M connections are forecast to reach 1b by 2020, representing 10% of all mobile connections as the Internet of Things (IoT) takes shape, while enterprises are adopting cloud services in ever greater numbers. In this environment, operators are positioning themselves to provide new use cases across a number of digital domains, while also bundling established products in order to offer new forms of value-add to existing customers. Nevertheless, profitability remains under pressure for a number of operators, despite the promising growth potential of new digital service domains. Downward trends in return on invested capital (ROIC) are the result of a number of factors, from regulated price reductions to cannibalization of legacy revenues by OTTs, along with high capital intensity required to support demand for data.

Tension in the telecommunications value chain as OTTs call the shots

While telcos are seizing a foothold in adjacent industries, many new services have a challenging margin profile compared to legacy telecommunications services. Even more importantly, OTTs are diversifying their own service propositions. Mobile instant messaging providers are adding voice services and mobile payments capabilities to their platforms, for example, threatening both legacy and new services offered by operators in the process. OTTs are growing their share of industry value chain revenues, reaching the 10% mark in just a few years according to EY estimates. With competition also rising among retail and distribution providers, it is clear that operators must do more to make the most of opportunities represented by the digital society.

Figure 6: Telecommunications industry value chain – 2015 share of revenues by segment



Source: EY analysis

> "To avoid commoditization, telcos should become the focal point of the extended value chain, focusing on digital services and taking advantage of their traditional competencies."

Digitisation of industries

Already, telecom firms are taking advantage of this new user base of people and things by developing a variety of new services, sometimes in partnership with other companies. For example, in the U.S., AT&T is working with IBM on a smart cities program, and Spain's Telefónica offers an IoT product called Thinking Things that lets individuals develop programs to adjust climate and lighting in rooms, offices, and buildings currently and in the future to control all of the home and office equipment and data they interact with. In conjunction with companies such as Nespresso and Coca-Cola, the U.K.'s Orange has launched a machine-to-machine (M2M) communications system. Germany's Deutsche Telekom is supporting the digitizing of manufacturing with its Industry 4.0 initiative. And an Indian firm, Bharti Airtel, is in a joint venture with the State Bank of India to develop mobile banking apps for people unable to access a local branch. Providing such farsighted services for all kinds of industries, equipment, and individual needs is essential for every innovative telecom operator.

Ongoing M&A to unlock new market structures

Recently, telecom providers have begun to pursue growth through innovative digital ecosystems designed around joint ventures, acquisitions, or internal R&D. Sweden's TeliaSonera, for example, has taken a stake in Zound Industries, a provider of fashionable accessories for electronics, while Australia's Telstra has invested in digital signatures through DocuSign and in video platforms through Ooyala. Deutsche Telekom Capital Partners has set aside US$620 million to fund German startups. Many major global operators have established their own independent incubators or venture funds focused on digital innovation, and created satellite offices in the Silicon Valley region to gain access to ideas for next-generation services.

Pursuing multiple routes to innovation

In a continuously evolving ecosystem, operators that can get to market first with new service propositions will stand out from the crowd. It is not enough to follow the herd. To succeed, operators have to start thinking more holistically about how they innovate — attracting the best in new talent and developing new ways of interacting with the world of technology startups.

D. Opportunities in Asia

Our Asian growth strategy has three pillars: to leverage Telstra's strong foundation of connectivity in the region to deliver integrated solutions to enterprise and wholesale carrier customers; to pursue deeper in-country investment opportunities in mobility and connectivity; and to bring a suite of innovative new software based solutions to market over the longer term, through targeted investments in the region. We provide wholesale and enterprise customers with a wide range of end-to- end solutions across data, voice, satellite and managed network services. Through our strategic investments, we now have the largest subsea cable network in Asia Pacific, with licences in Asia, Europe and the Americas and we facilitate access to more than 2,000 Points of Presence around the world. We also have a 54.3 per cent stake in Autohome, the leading online destination for car buyers in China.

1. About Pacnet

In April 2015, we substantially extended our reach and asset base in Asia by completing the acquisition of Pacnet Limited, a provider of connectivity, managed services and data centre services to carriers, multinational corporations and governments in the Asia-Pacific region. Pacnet increases the scale and scope of our international connectivity assets. The completed acquisition doubles Telstra's customers in Asia, and greatly increases our network reach and data centre capabilities. The Pacnet Business Services joint venture in China offers IP VPN connectivity services and together with state-of-the-art data centres in Tianjin and Chongqing, will enable us to provide a seamless service offering to our customers in and out of China.

Pacnet's core assets comprise an integrated network of points-of-presence (PoPs), data centres and sub-marine cables across Asia-Pacific, operated out of delivery centres throughout the Asia-Pacific region. Pacnet operates 109 PoPs across 61 cities in the Asia-Pacific region and 8 cities outside of the region (US and Europe) aimed at both carrier and enterprise customers.

Pacnet has a broad customer base. It focuses on two key customer segments: enterprise and carrier customers. In the enterprise segment, Pacnet has about 2,400 customers with strong penetration of financial services, internet, social networking players, e-commerce, technology and professional services. In the carrier segment, Pacnet has about 220 customers comprising both retail and wholesale telecommunications players. Pacnet has also developed a strong franchise with the over-the-top segment, in line with Telstra's strategy.

2. About Telkomtelstra

Our joint venture with Telkom Indonesia, telkomtelstra launched in May 2015, with a suite of NAS solutions aimed at domestic enterprises and multinationals operating in Indonesia.

Telkomtelstra is an end-to-end managed solutions provider committed to empowering enterprises in Indonesia. We aim to solve our customers' business challenges, by helping them to optimise, grow, and transform their businesses through our managed ICT solutions.

Telkomtelstra is a joint venture between PT. Telekomunikasi Indonesia (Telkom Indonesia), Indonesia's largest telecommunications operator, and Telstra Corporation Limited (Telstra), a regional leader in enterprise services. Leveraging the strengths of both Telkom Indonesia and Telstra, we bring an unparalleled combination of deep local market expertise and global managed solutions experience.

3. About Muru-D

Another key priority for Telstra is to foster technology innovation. Our start-up accelerator program, muru-D, a subsidiary of TSG, identifies and supports start-ups to create valuable technology products and services through a six month acceleration program, with muru-D taking a small equity stake in each start-up. Building on the great success of the inaugural program, our second group of start-ups graduated in May, with all teams securing paying customers.

In April, muru-D launched in Singapore, aspiring to attract the region's best digital talent and the successful start-ups will commence the program in September 2015.

Startups who secure a spot in muru-D will join us at our purpose built startup for 6 months of tailored support.

1. **Getting started at muru-D bootcamp**. The acceleration period begins with a week of intensive training covering all the basics that you'll need to accelerate your business.

2. **Mapping your milestones**. In the early stages of your journey we work with you to create a tailored milestone plan that significantly accelerates your business. At this critical time, we agree upon the key milestones that you will be accountable for during your journey with us.

3. **Matching you to mentors.** Once we've got to know you & exactly what you need to grow your business super fast, we'll be able to match you up to the people who are best placed to help you. Mentoring will be provided from within the Telstra family & from external experts.

4. **Networking and investment possibilities.** Our focus is helping you get 'investor ready'. We'll hold multiple investor networking events throughout your time with us. Our aim is to make sure that by the time you leave you'll have enough capital to keep you growing fast. We also host weekly public events to provide you with exposure to as many people who can help as possible.

5. **Demo night.** The accelerator program ends with a demo night in an auditorium filled with investors, mentors, business partners and Telstra supporters**.**

4. About Autohome

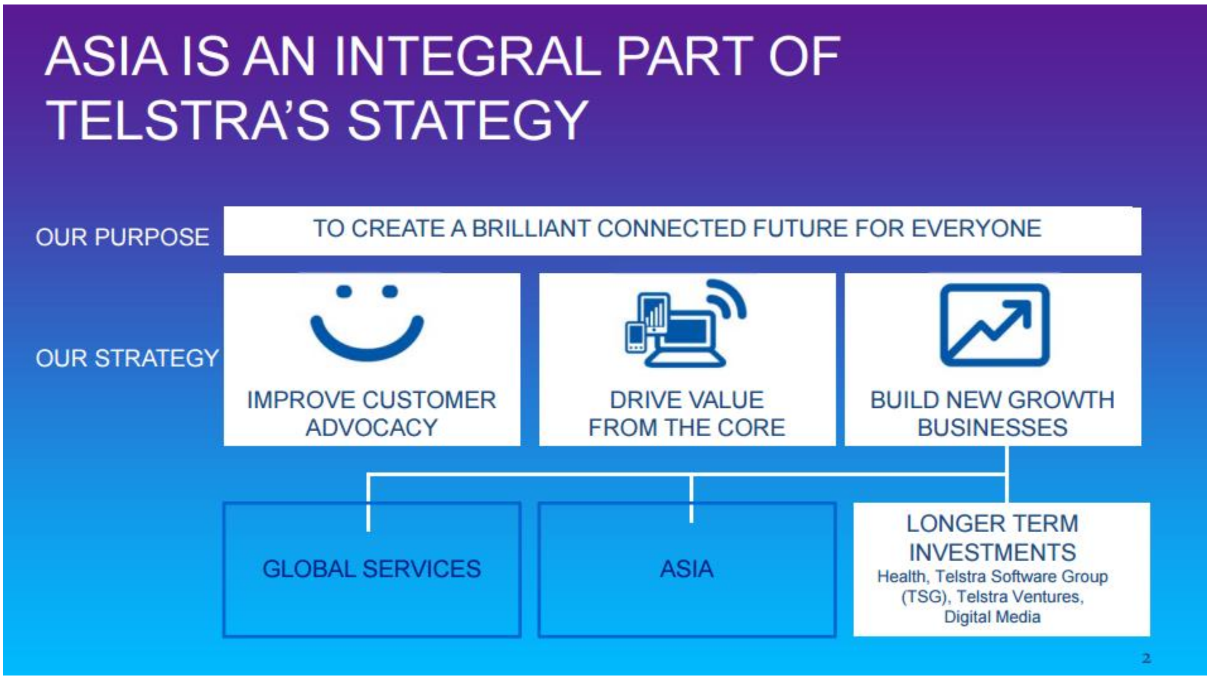
Autohome is the leading online destination for automobile consumers in China. Its mission is to enhance the car-buying and ownership experience for auto consumers in China.

Autohome provides professionally produced and user-generated content, a comprehensive automobile library, and extensive automobile listing information to automobile consumers, covering the entire car purchase and ownership cycle. The ability to reach a large and engaged user base of automobile consumers has made Autohome a preferred platform for automakers and dealers to conduct their advertising campaigns. Further, the Company's dealer subscription and advertising services allow dealers to market their inventory and services through Autohome's platform, extending the reach of their physical showrooms to potentially millions of internet users in China and generating sales leads for them.

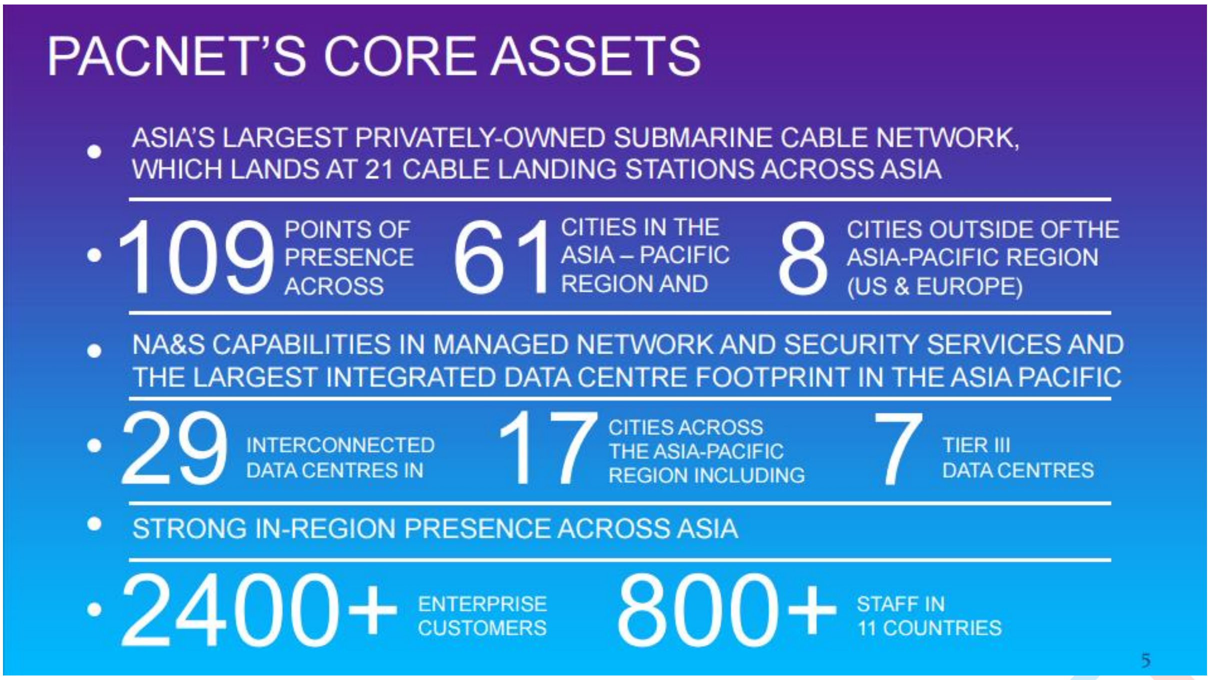
The Company offers sales leads, data analysis, and marketing services to assist automakers and dealers with improving their efficiency and facilitating transactions. As a transaction-centric company, Autohome operates its "Autohome Mall," a full-service online transaction platform, to facilitate transactions for automakers and dealers. Further, through its website and mobile applications, it also provides other value-added services, including auto financing, auto insurance, used car transactions, and aftermarket services.

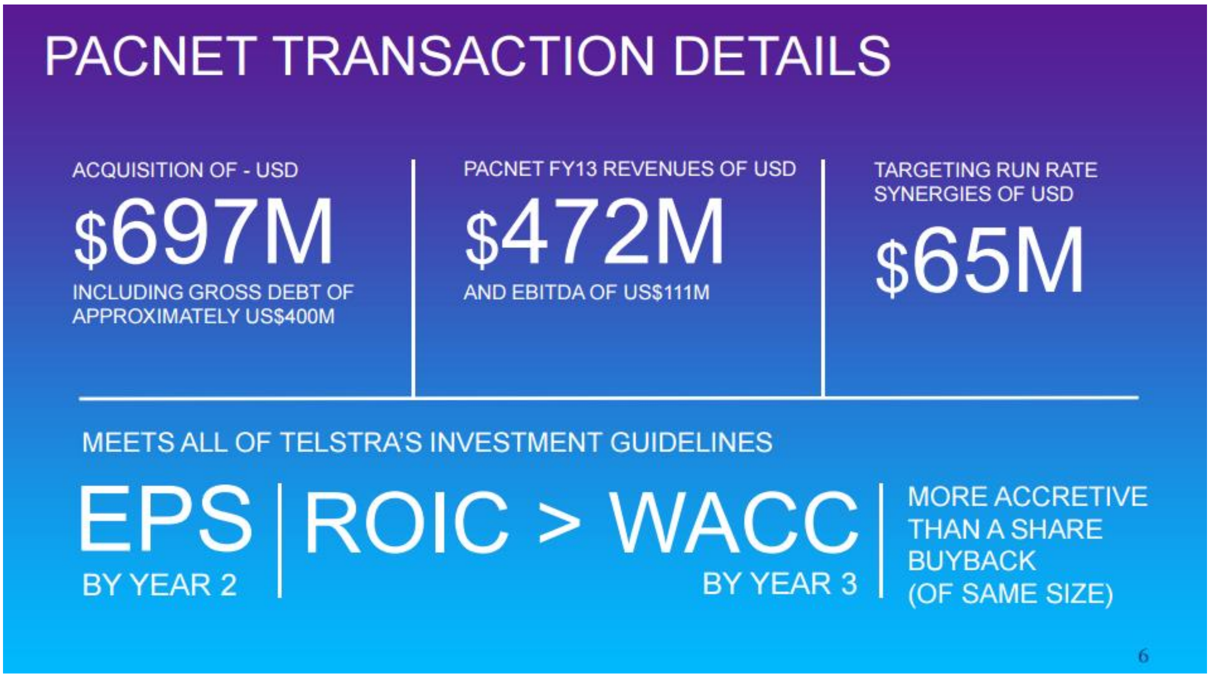
Appendix 1: Pacnet Acqusition

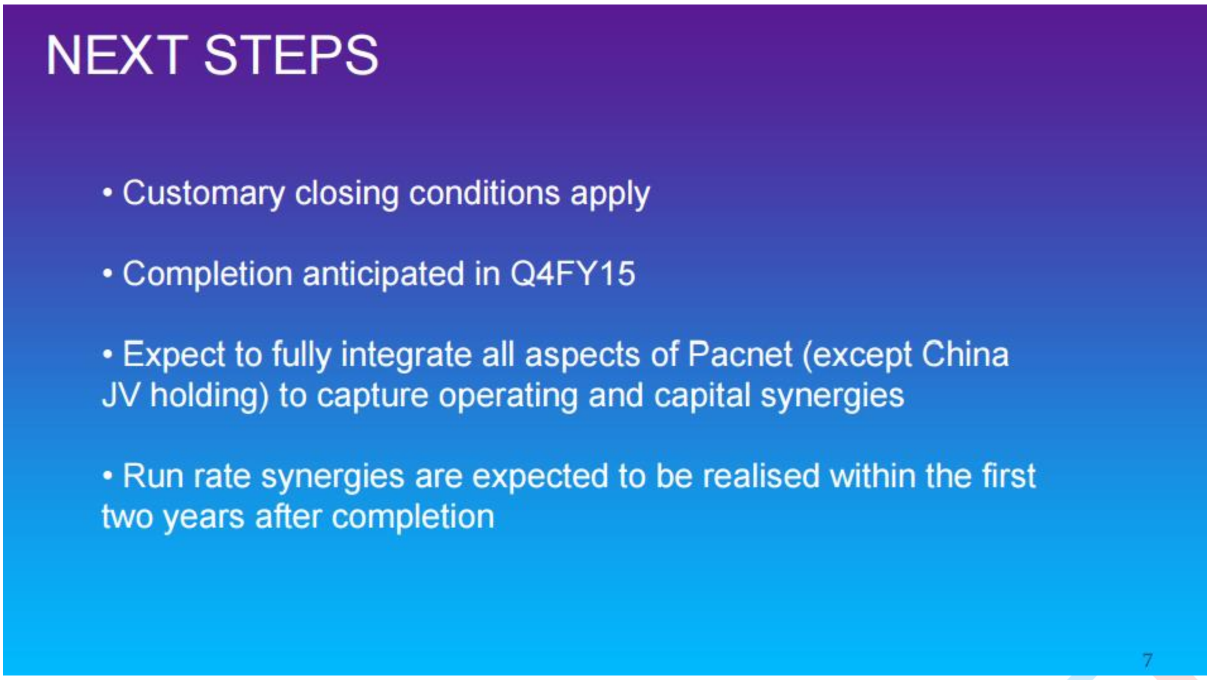
1.1. The Pacnet Acquisition




CURRENT ASIAN ASSETS AND CAPABILITIES
LEADING PROVIDER OF INTERNATIONAL CONNECTIVITY IN ASIA
ACCESS TO 230 COUNTRIES & TERRITORIES
GLOBAL DELIVERY CENTRE
MORE THAN 1400 INTERNATIONAL STAFF
MORE THAN 2000 POPS WORLDWIDE
19 LICENCES WORLDWIDE
INTEREST IN MORE THAN 20 CABLE SYSTEMS
2.5 TBPS CAPACITY TO BE ADDED IN THE NEXT 12 MONTHS
MORE THAN 150000 SQFT OF COLO READY DATA CENTRE SPACE
18 OFFSHORE DATA CENTRES
汽车之家 AUTOHOME INC.
A LEADING REGIONAL PLATFORM FOR GROWTH
4


PACNET'S CORE ASSETS
ASIA'S LARGEST PRIVATELY-OWNED SUBMARINE CABLE NETWORK, WHICH LANDS AT 21 CABLE LANDING STATIONS ACROSS ASIA
109 POINTS OF PRESENCE ACROSS
61 CITIES IN THE ASIA – PACIFIC REGION AND
8 CITIES OUTSIDE OF THE ASIA-PACIFIC REGION (US & EUROPE)
NA&S CAPABILITIES IN MANAGED NETWORK AND SECURITY SERVICES AND THE LARGEST INTEGRATED DATA CENTRE FOOTPRINT IN THE ASIA PACIFIC
29 INTERCONNECTED DATA CENTRES IN
17 CITIES ACROSS THE ASIA-PACIFIC REGION INCLUDING
7 TIER III DATA CENTRES
STRONG IN-REGION PRESENCE ACROSS ASIA
2400+ ENTERPRISE CUSTOMERS
800+ STAFF IN 11 COUNTRIES
5





To download analyst briefing pack slides:
http://www.asx.com.au/asxpdf/20141223/pdf/42vnwhr9ml8nsr.pdf

Appendix 2: Telkom Joint Venture

2.1. About Telkom Group

Telkom Group is the only state-owned telecommunications enterprise as well as telecommunications and network service providers in Indonesia. Telkom Group serves millions of customers throughout Indonesia with a complete range of telecommunications services that includes fixed wireline and fixed wireless connections, mobile communications, networking and interconnection services and Internet and data communication services.

Telkom Group also provides various services in the field of information, media and edutainment, including cloud-based and server-based managed services, e-Payment services and IT enabler, e-Commerce and other portal services.

2.2. About Telstra

Telstra is Australia's leading telecommunications and information services company. With an understanding of what its customers want, including technology and content solutions that are simple and easy to use, Telstra has built networks like Australia's largest fully integrated IP network and Australia's largest and most reliable national mobile network.
With its international operations headquartered in Hong Kong, Telstra provides top-tier international customers across Asia Pacific, Europe, the Americas, Middle East and Africa with a full breadth of holistic and end-to-end solutions including managed network services, global connectivity, data, voice, satellite solutions, collaboration and cloud. Telstra's extended reach provides our customers with smarter technology solutions to support sustainable business growth.

2.3. Why telkomtelstra

Our value proposition is to empower businesses to achieve outcomes with confidence. We will accomplish this through our integrated managed solutions, leveraging our extensive reach, global capability and local expertise.
We believe we can do this better than anyone else, enabling businesses with a unique collection of core capabilities:

- **End-to-end managed solutions portfolio:** We will be managing from customer premise equipment, network infrastructure up to applications end to end with a wide range of managed solutions on top of the network infrastructure
- **Unparalleled infrastructure reach and quality:** We'll leverage Telkom's broad and rich domestic network capability and infrastructure. Internationally, we will leverage Telstra's international infrastructure as well as Telin, Telkom's international subsidiary
- **Co-creation approach:** We collaborate with our customers to help solve their biggest business issues, using solutions that are modular and scalable
- **Global experience in delivering managed solutions:** We are supported by Telstra's 10+ years of experience and expertise in delivering managed solutions to global customers
- **Best-in-breed partnerships:** We have partnerships and accreditations with some of the world's biggest enterprise players, as well as innovative software partners

To read full article: http://www.telkomtelstra.co.id/en/about-us.html

Appendix 3: Muru D Press Releases

3.1. Southeast Asian startups targeted in Telstra accelerator program

Eileen Yu
29 April 2015

Australian telco's muru-D launches S$400,000 seed funding aimed at recruiting 10 technology startups across the region for a six-month program, which includes housing and mentorship.

Telstra is dangling S$40,000 in seed funding to recruit technology startups across Southeast Asia, targeting markets that include Singapore, Malaysia, Vietnam and the Philippines.

The Australian telco's accelerator program, muru-D, will be looking to sign up 10 startups in the region and has roped in local partnerships to support the initiative. Each successful startup will receive S$40,000 (US$30,214) in seed capital as well as housing within the accelerator's office in Singapore's central business district area.

Telstra first launched the initiative in Sydney in October 2013 and has since completed two intakes of 20 startups, with nine in the first round generating more than A$3 million (US$2.38 million) in follow-on funding. Technology developed from these startups were focused on various key verticals including agriculture, construction, and "classic" business-to-consumer products and services, Parker said. The second intake will be pitching their ideas next week.

She said muru-D would not focus on any specific verticals in its selection of startups in this region, beyond the basic criteria that they would have to be digital.

Instead, the accelerator would be judging startups based on the quality and merits of their idea, said Jamie Camidge, muru-D's head of strategic partnerships and alliances. It also would identify startups with a dedicated founding team and able to demonstrate clarity in terms of real-world business problems they were trying to resolve.

Selected startups would have to be incorporated in Singapore to be eligible for the program, with muru-D taking a 6 percent equity stake in the company. And the accelerator is offering somewhat of a money-back guarantee should the startup fail to take off.

Parker explained that if the business idea did not work for whatever reason or should the startup decide to move into a different market segment, muru-D would offer to sell back its equity for a single dollar.

Selected startups would receive S$20,000 upfront, with the remaining S$20,000 to be given out when they had achieve an agreed midpoint milestone such as launching its app in an appstore.

Parker said there were plans to recruit more than one intake in Singapore. muru-D also will be able to tap its experience and knowledge from running the program in Sydney with startups in this region, she said, pointing to skillsets such as channel management, pricing, and costing expertise.

Stressing that the accelerator's primary objective was to support the startup ecosystem and community, muru-D's entrepreneur-in-residence Joseph Ziegler said it would be looking for companies it could help the most. A startup that is heavy with fintech relationships, for instance, would likely be unsuitable for its accelerator program, Ziegler said.

Speaking to ZDNet on the sidelines of the launch, Telstra CEO David Thodey reiterated the telco's primary objective of supporting the startup community: "The fact is the world is getting smaller and no one has control of good ideas...and there often are great ideas that don't get the opportunity to bubble.

"So we have no vested interest other than to be part of this ecosystem," Thodey said. He added that startups muru-D supported focused on various segments and not necessarily focused on developing technology for the telecommunication sector.

Thodey said Telstra's own engineering team also regularly interacted with these startups, noting that this injected a refreshing change in corporate culture that benefited the telco, with emphasis on the need for speed to market as well as continued testing and reinventing of products and services.

muru-D decided to set up base in Singapore because Telstra already had operations and established partnerships here, Parker said. In markets where the telco might not have presence, it would work with local partners to support the program, such as Icehouse in New Zealand.

Spotted at the launch were executives from Singapore telco StarHub, which is a close roaming partner with Telstra. Both telcos work closely on various initiatives to drive and test out new applications and services, which either can deploy on its respective network.

According to a StarHub spokesperson, no details were firm regarding StarHub's involvement in muru-D, though discussions were ongoing about any potential tie-up.

The Telstra accelerator has roped in various government agencies and government-led startup initiatives in Singapore to lend their support to the program, including the Infocomm Development Authority's Infocomm Investments, Economic Development Board, and Spring Singapore.

Last month, software vendor SAP also launched an acceleration program in Singapore, giving local tech startups access to a funding pool of S$10 million (US$7.28 million) and mentorship from industry experts.

To read full article: http://www.zdnet.com/article/southeast-asian-startups-targeted-in-telstra-accelerator-program/

Appendix 4: Autohome Press Releases

4.1. Autohome: experimenting the way to success

Karyn Westaway

30 October 2015

Autohome is a remarkable success story, an online business that has ridden the wave of the rising Chinese middle class to build the leading online automobile business in China. In just over a decade it has grown from nothing to a business with more than 6,000 visitors to its websites every minute and a market capitalisation on the New York stock exchange of more than US$3 billion.

James Zhi Qin has been at the forefront of this rapid rise as the CEO of Autohome since 2009. Telstra is the majority shareholder in Autohome and we sat down with James to hear about his commitment to innovation and change to better serve his customers.

KW: What was the genesis of Autohome?

JZQ: Autohome was founded in 2005 by entrepreneur Li Xiang. Li identified the gap in the market when he wanted to buy a car but couldn't find any useful information online, so he started a site himself. This remains the fundamental purpose of Autohome, to help consumers choose the right car for them.

KW: How has the business achieved such rapid rise?

JZQ: We have always focused on delivering what our customers want, high quality independent content and a simple user experience. Our customers can get what they want — the car brand, model, price and the discussion forum – in just two clicks. We make it easier for them to find the car they want at the best price.

With this as our starting point our websites have evolved into a fully fledged service platform in the auto sector. We now advocate and inform Chinese consumers about buying, owning and selling a car in what is the biggest automotive market in the world.

Auto transactions are not frequent purchases so there is some guess work needed to understand and align your business with consumer behaviour. But the key thing is to take a well educated guess, as that is far better than not acting at all.

KW: Where do you see further innovation and disruption happening in your market?

JZQ: We see online and traditional offline business will continue to converge. We believe in China an internet player can penetrate the offline retail market in the next couple of years and that's why Autohome needs to leverage our successful internet business to establish an innovative bricks and mortar retail and service presence as well.

KW: How do you view your relationship with Telstra?

JZQ: Telstra and Autohome are very different companies, with different backgrounds, sizes and markets. However, we share a common belief in putting customers first and both of our businesses focus on identifying the best technologies and applying them to solve customer problems.

Telstra is generally more conservative than we are. They have more than a century of history while we are a start-up, changing and growing very quickly. Telstra has offered us stability and experience, and we've drawn on that at times.

For example, when we were moving to an initial public offering on the New York Stock Exchange in 2013, having Telstra as a partner meant our corporate governance processes were already mature. So we were able to report no material weaknesses, which was unique among major Chinese companies at the time.

It has been a two-way street and I think Telstra have learned from us as well, around operating in China, the behaviour of Chinese consumers and the importance of experimentation as part of a commitment to innovation.

To read full article: http://exchange.telstra.com.au/2015/10/15/autohome-experimenting-way-success/

Appendix 5: Financial Data

5.1. Five Year Financial Summary of Telstra

	2015 $m	2014 $m	2013 $m	2012 $m	2011 $m
Total Income (excluding finance income)	26,607	26,296	24,776	25,503	25,304
EBITDA(1)	10,745	11,135	10,168	10,234	10,151
EBIT(2)	6,762	7,185	6,090	5,822	5,692
Profit before income tax expense	6,073	6,228	5,157	4,934/td>	4,557
Profit for the period from continuing operations	4,286	4,549	3,640	N/A	N/A
Profit/(loss) for the period from discontinued operations	19	(204)	151	N/A	N/A
Profit for the period	4,305	4,345	3,791	3,424	3,250
Dividends paid in the financial year	3,699	3,545	3,480	3,475	3,475
Dividends declared (cents per share)	30.5	29.5	28.0	28.0	28.0
Earnings per share (cents)	34.5	34.4	30.1	27.5	26.1
Dividend payout ratio (%)	88	86	93	102	107
Total assets	40,445	39,360	38,527	39,525	37,913
Gross debt	14,962	16,048	15,628	17,222	16,232
Net debt	13,566	10,521	13,149	13,277	13,595
Total Equity	14,510	13,960	12,875	11,689	12,292
Capital expenditure	3,589	3,661	3,792	3,591	3,410
Free cashflow	2,619	7,483	5,024	5,197	5,477

Financial ratios[5]					
Return on average assets	18.9%	20.4%	17.9%	16.7%	15.9%
Return on average equity	30.3%	32.3%	31.0%	28.9%	26.1%
EBITDA interest cover (times)	12.3	13.8	12.4	10.3	9.6
Net debt to capitalisation[3]	48.3%	43.0%	50.5%	53.2%	52.5%
Net debt to EBITDA	1.3	0.9	1.2	1.3	1.3

1. Operating profit before interest, depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly relate to all financial aspects of the operations of the company. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to us.
2. EBITDA less depreciation and amortisation.
3. Based on net debt (gross debt less liquid interest bearing assets) as a percentage of net debt plus equity.
4. Restated for the retrospective adoption of AASB:119 "Employee Entitlements" and the Sensis directories business being classified as discontinued operation.
5. Ratios have been measured on a continuing and discontinued operations basis.

5.2. International Growth in Connectivity and NAS

AUTOHOME ($AUD)[1]	FY12	FY13	FY14	CAGR[2] IN LOCAL CURRENCY
Revenue	$77m	$134m	$250m	67.5%
EBITDA	$37m	$72m	$129m	73.3%
PRODUCT PERFORMANCE ($AUD)	**1H14**	**1H15**	**GROWTH**	**GROWTH IN LOCAL CURRENCY**
Hong Kong (CSL)[3]	$630m	-	n/m	n/m
Global connectivity[4]	$291m	$322m	10.7%	4.7%
International NAS[4]	$32m	$41m	28.1%	27.9%

IT'S HOW WE CONNECT

1. Autohome financials are presented on a financial year ended 30 June basis in line with Telstra's reporting period.
2. CAGR is compound annual growth rate for 2 years.
3. CSL results have been consolidated until April 2014.
4. Includes various local currencies therefore calculated on weighted average growth for the significant contributing entities.
5. Autohome Q3 CY14 revenue growth and Q4 CY14 business outlook are calculated under U.S. GAAP.

- Autohome revenue was up 64.6%[5] for the 3 months to 30 September 2014 over the prior corresponding period.
- The business outlook provided for Q4 CY14 was for net revenue growth of 58.0% to 64.8%[5] over Q4 CY13.
- Dealer subscription services continue their strong growth in Q3, up 64.5% from Q3 CY13.
- Average daily unique visitors to Autohome websites by mobile were 6.9m during September 2014, up 177% respectively from September 2013.
- CSL sale transaction completed in May 2014.
- Global connectivity growth is driven by continued increase in wholesale carrier data and growth of retail IP solutions.
- Acquisition of Pacnet was announced 23 December and is expected to close in 4Q15. This will accelerate our international connectivity and NAS growth.

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AUSTRALIAN UNDERGRADUATE BUSINESS CASE COMPETITION

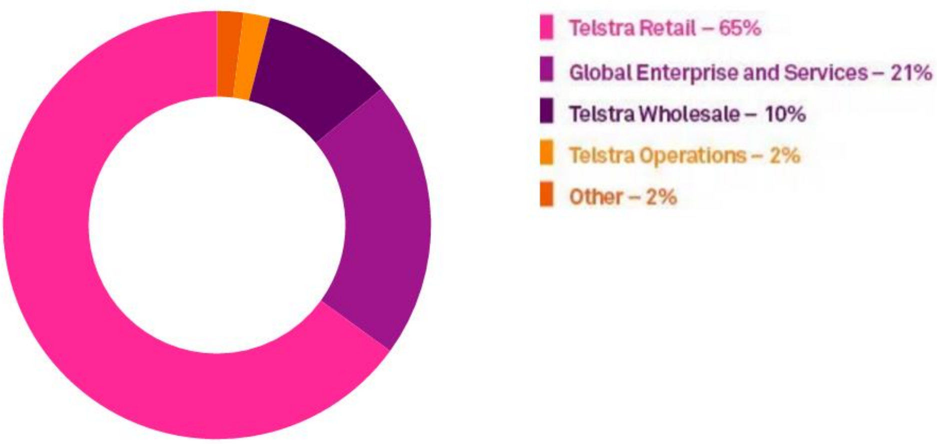
5.3. PACNET: Extending Capabilities and Presence in Asia

PACNET	CY13	Further information
Acquisition price		US$697m
Revenue	US$472m	
EBITDA	US$111m	
Points of Presence		109
Data centres		29
Submarine cable		46,420kms

- Pacnet acquisition will double the scale of our enterprise business in Asia.
- 2,400 enterprise customers and 220 carrier customers.
- Pacnet's existing products and services include connectivity, bandwidth, IT solutions, data centre hosting and co-location, and will be fully integrated into our global connectivity and NAS business.
- We are targeting run rate synergies of approximately AUD$65m.
- China joint venture is licensed to operate domestic IP VPN and provide data centre and hosting services in China.
- The transaction is subject to regulatory and Pacnet financier approvals and is expected to complete 4Q15.

5.4. Segment Performance

Segment total income



	FY15 $m	FY14 $m	Change %
Telstra Retail	**17,252**	16,383	5.3
Global Enterprise and Services	**5,674**	5,257	7.9
Telstra Wholesale	**2,586**	2,328	11.1
Telstra Operations	**424**	289	46.7
Other (excluding Sensis)	**671**	2,039	(67.1)
Total Telstra segments (excluding Sensis)	**26,607**	26,296	1.2
Other – Sensis	–	552	n/m
Total Telstra segments	**26,607**	26,848	(0.9)

5.5. Customer Service Exhibit

Customer service

+5 OVERALL NET PROMOTER SYSTEM (NPS) IMPROVEMENT

52% OF CUSTOMER SERVICE TRANSACTIONS ONLINE

>5m SERVICE AND INSTALLATION JOBS COMPLETED ~ 13k PER DAY

>8m UNIQUE VISITORS to **telstra.com** each month

350k LIVE CHAT SESSIONS on average each month

2.3m REGULAR USERS of our **Telstra 24x7® App**

5.6. Growth and International Expansion Exhibit

Growth and international expansion

US$697m[5] ACQUISITION OF PACNET including the largest privately owned intra-Asia cable network

\+ 29 DATA CENTRES

109 POINTS OF PRESENCE

TELKOMTELSTRA Launched Indonesian Joint Venture

OOYALA increased ownership NOW **97.3%**

MURU-D® SINGAPORE launched

23.2%↑ NAS REVENUE

FORMALLY LAUNCHED TELSTRA HEALTH™ and continued to build capabilities

5.7. Sustainability Exhibit

Sustainability

~117k PEOPLE reached through our digital literacy programs

27% REDUCTION IN CARBON EMISSIONS INTENSITY

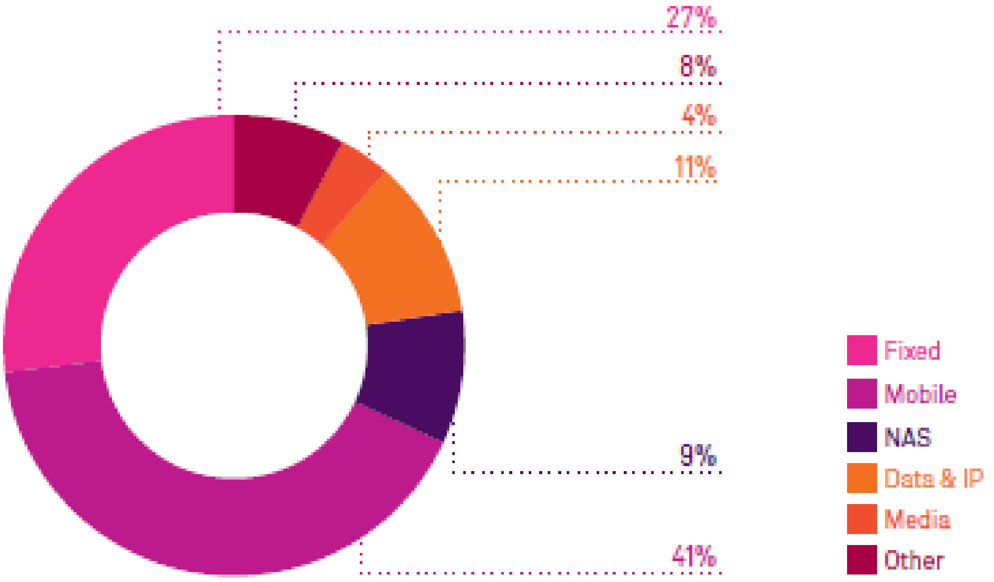
476 PEOPLE with a disability or from a disadvantaged background employed through our Supported Workforce program

>15m SMS SENT to customers highlighting responsible phone use

5.8. Product Performance

Product performance

Product sales revenue breakdown



Key product revenue

	FY15 $m	FY14 $m	Change %
Fixed	**6,944**	7,076	(1.9)
Mobile	**10,651**	9,668	10.2
Data and IP	**2,883**	2,968	(2.9)
NAS	**2,418**	1,963	23.2

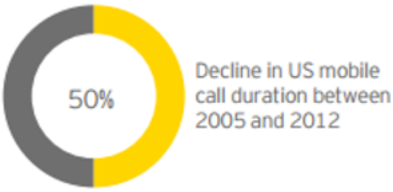
Product profitability EBITDA margins[i]

	FY15 %	FY14 %	2H15 %	1H15 %
Mobile	**40**	40	**40**	40
Fixed voice[ii]	**55**	59	**54**	56
Fixed data[ii]	**41**	41	**39**	42
Data and IP	**64**	65	**65**	64

(i) The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy.
(ii) Margins include NBN voice and data products.

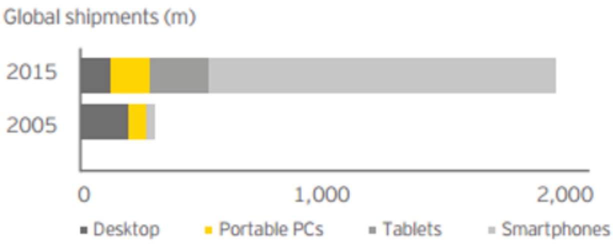
5.9. Fast changing consumer consumption trends

Voice usage has declined ...

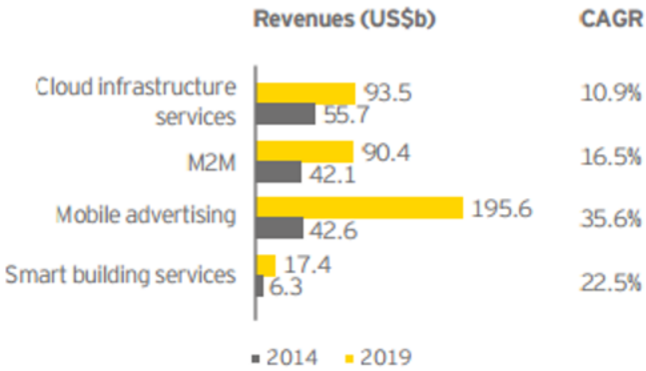


Sources: Press, Canalysys, IDC, Gartner, EY analysis

... and mobile is now the leading computing platform[2]



5.10. Global market growth of selected TMT segments



Sources: Ovum, IDC, Research & Markets, eMarketer

5.11. Telco cross-border M&A

Source: EY analysis

5.12. Global Enterprise and Services

Global Enterprise and Services (GES) is responsible for sales and contract management support for business and government customers in Australia and globally. It provides product management for advanced technology solutions including data and IP networks, and NAS products such as managed networks, unified communications, cloud, industry solutions and integrated services. GES provides technical delivery support for all NAS customers globally and the recently formed Telstra Software Group and its acquisitions also form part of GES.

Income for GES increased by 7.9 per cent to $5,674 million due to strong growth in NAS and enterprise mobility in Australia, our international GES customers (GES Global) and Telstra Software. GES EBITDA declined by 1.7 per cent to $2,439 million largely due to the ongoing change in product mix from higher profit carriage to lower profit NAS products and GES Global businesses, along with the negative EBITDA impact from the Telstra Software Group acquisitions which are businesses in their early stages. The NAS profitability margin continued its trend of improvement in FY15 driven by scalable standardised offerings, a lower cost delivery model and operational leverage.

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