

Employment Strategy - Update

Background

- ACTU has directed Telstra unions on strategy and negotiating position
- ACTU is also financing SBU research/communications/staffing (including 5 full-time researchers and an overseas campaign organiser)
- Broad political agenda (Major WR reforms in 2009-2010)
- **ACTU/Union Bottom Line –**
 - No more individual contracts and immediate reversion from AWA to EA;
 - Union role in incentive plans;
 - External dispute resolution;
 - **Minimum 5% pay increases to stay above CPI (see slide 5);**
 - **Telstra must enter side-deals granting unions greater powers (CRA/MoU)**

Top Company Comparison – Expired EAs and Employee EAs are commonplace*

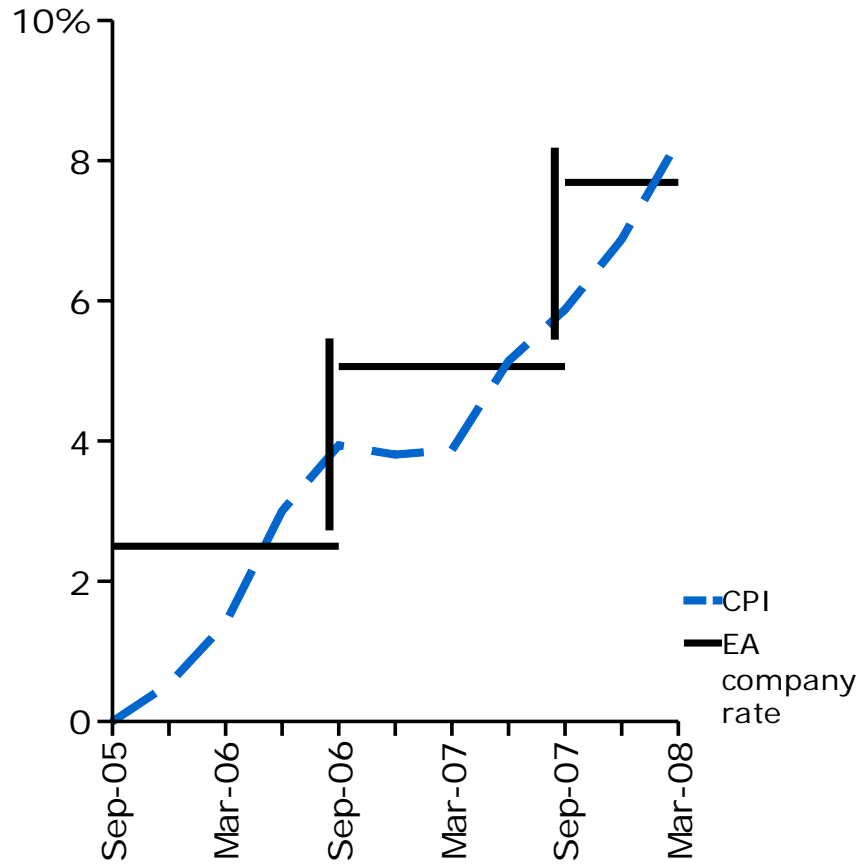


Company	Expired Union EA	Employee EA
BHP	✓ (x10)	✓ (plus 'consent' Awards)
Rio	✓	✓ (plus 'consent' Awards)
NAB	✓	X
CBA	✓ (x5)	X
News Corp	✓ (x2)	✓
ANZ	✓	X
Westpac	✓ (x10)	X
Coles Myer	✓ (x14)	✓

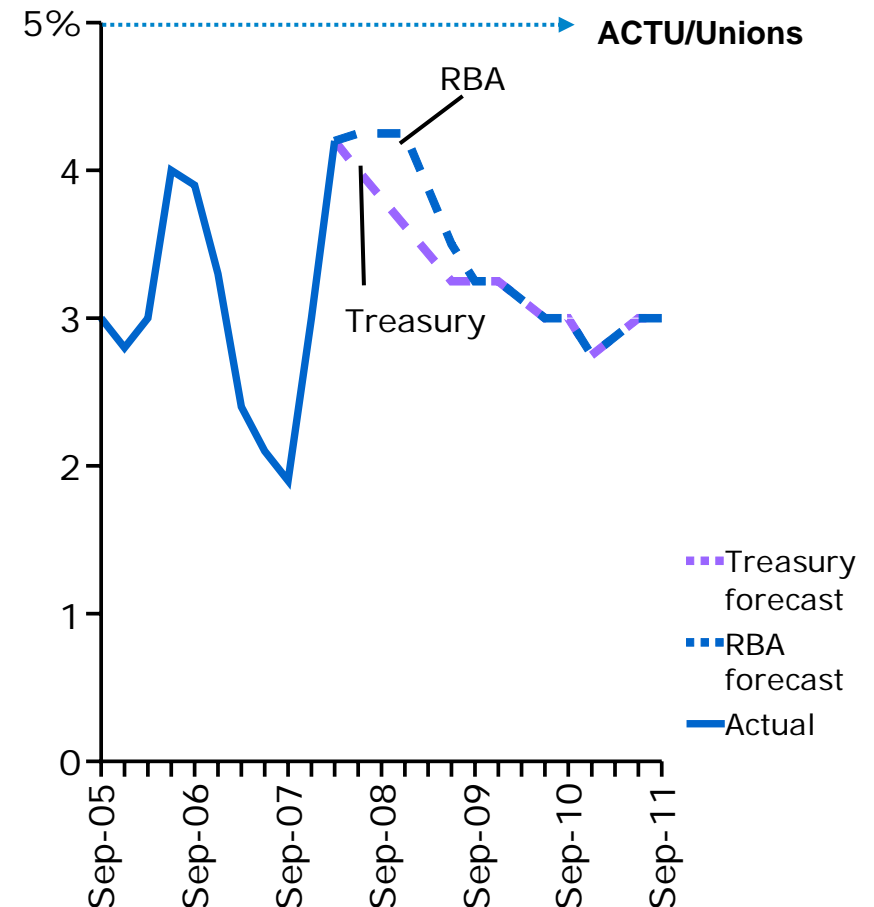
CPI+ Background: Union Approach of 5%+ increases over the life of a new EA does not accord with RBA & Treasury Forecasts (but note the spike in 2nd half of 2008)



Cumulative increase (Since Sep 05)



CPI increase (Rolling 12 month)

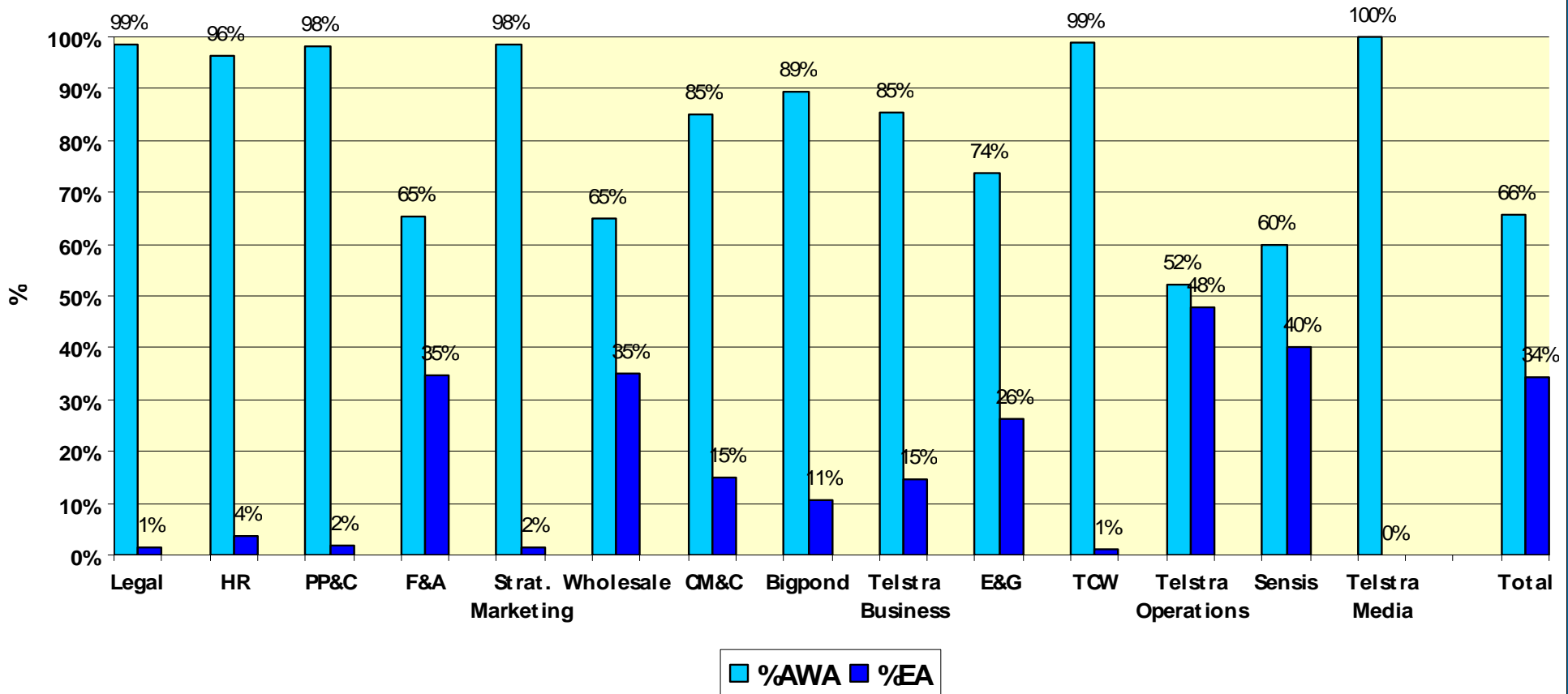


Note: Company rate since Sep 06 have increased with an annual compound rate of 2.5%; Inflation rate beyond Dec 2010 estimated based on RBA target inflation rate

Telstra's individual contract numbers are at an all-time high



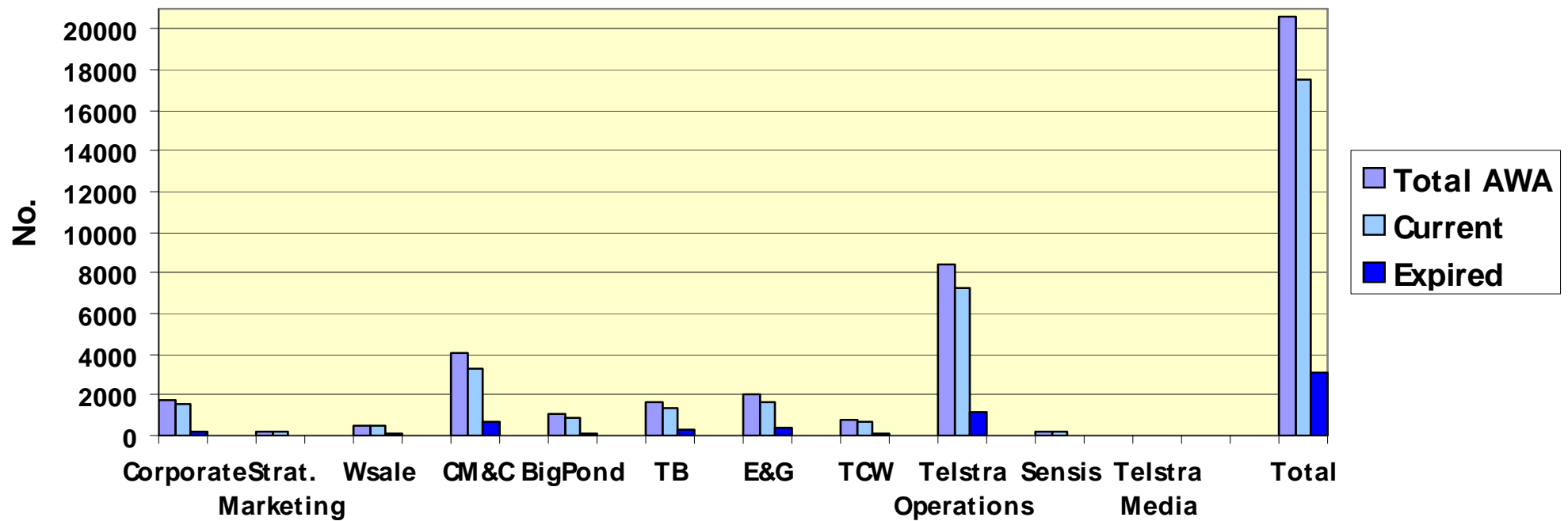
AWA/EA Breakdown as at March 2008



Employees on Current Contracts not part of EA Process



AWA BU Breakdown - curent vs expired



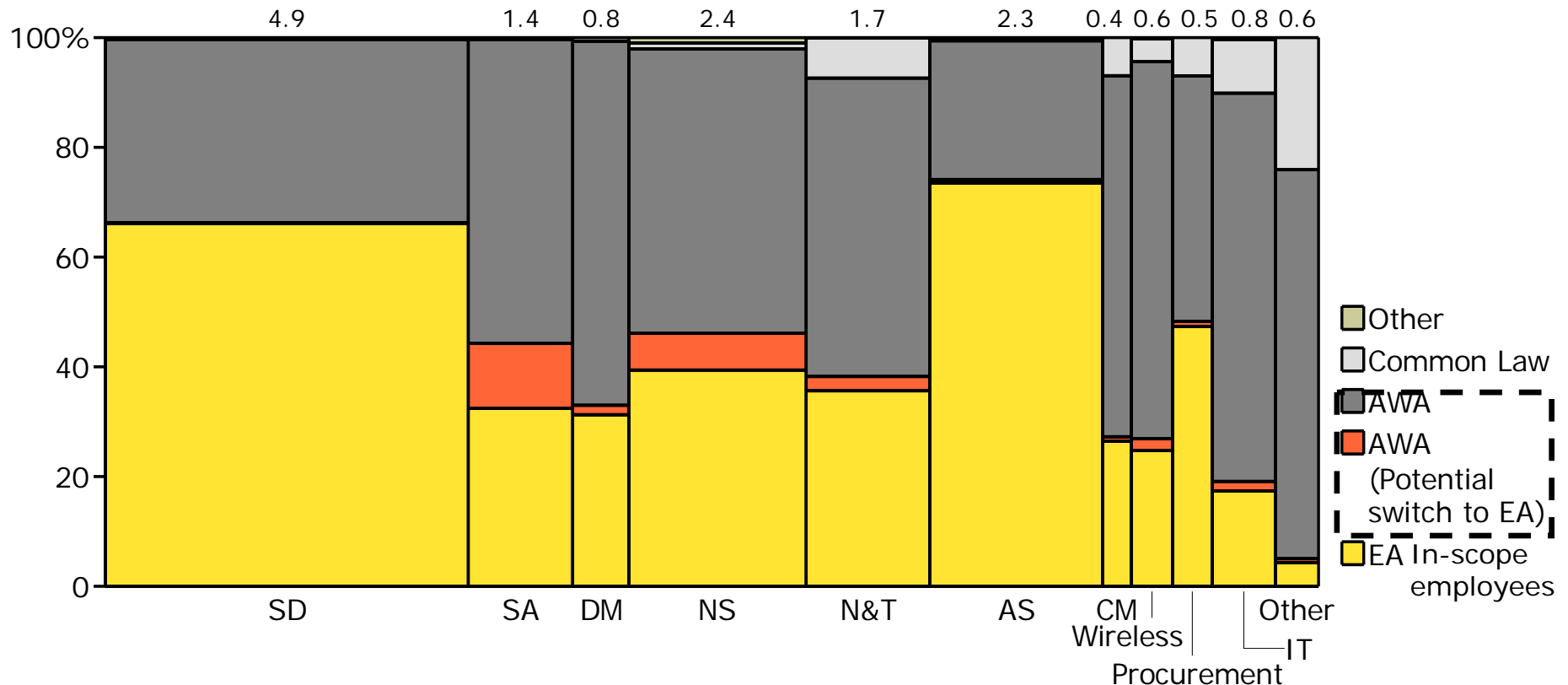
Most EA employees are in Telstra Ops



Approx 50 FTE EA staff remaining in Procurement by end of 2008

Total = 16.2K

Number of Employees (2008)



# In-scope employees (K)	3.2	0.6	0.2	1.1	0.6	1.7	0.1	0.1	0.3	0.2	0.0
In-scope EA equivalent full rem. (\$M)	218	42	18	92	57	118	9	12	18	15	2

Employment Strategy – Background

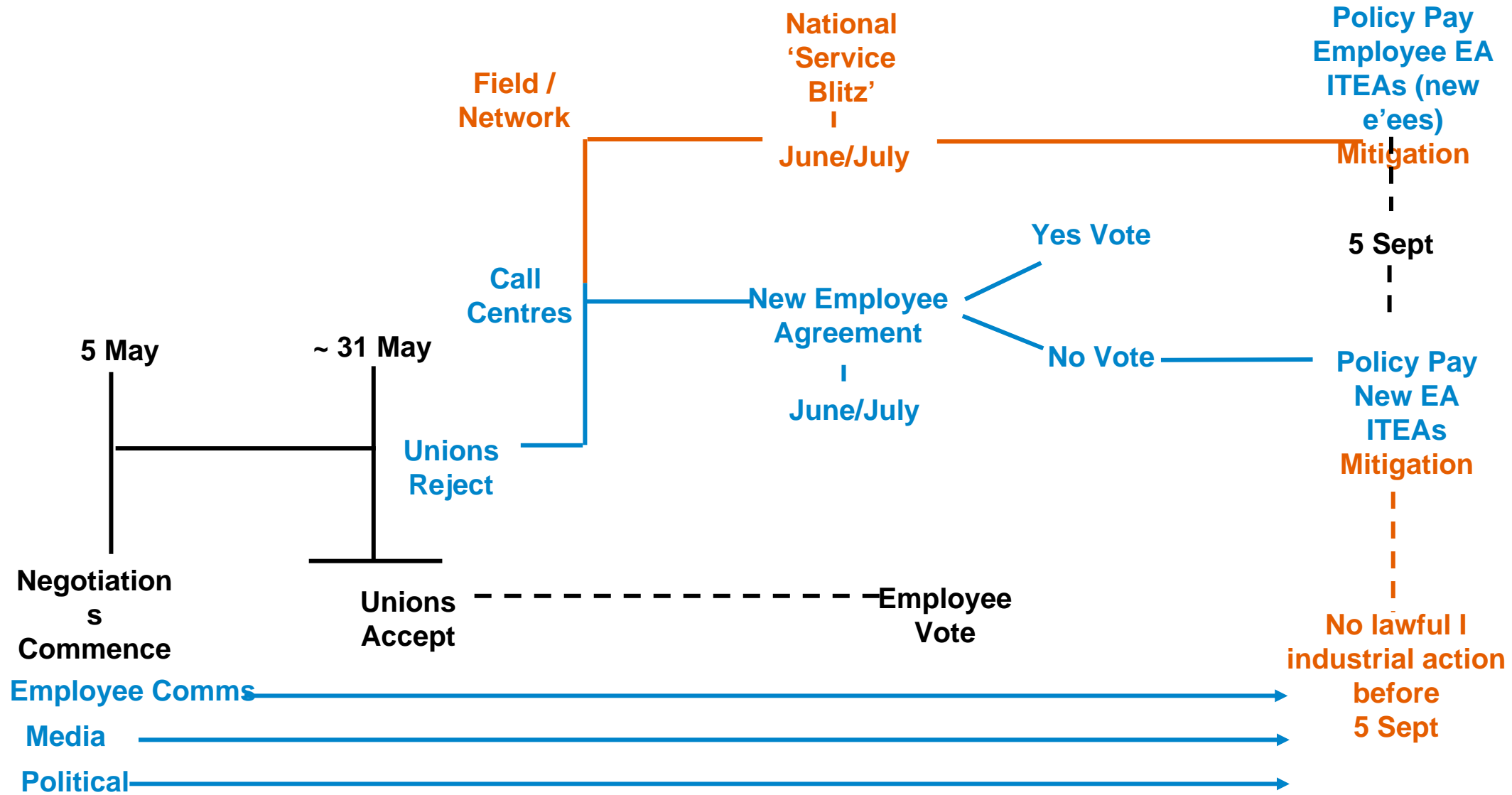
Employment Strategy Principles



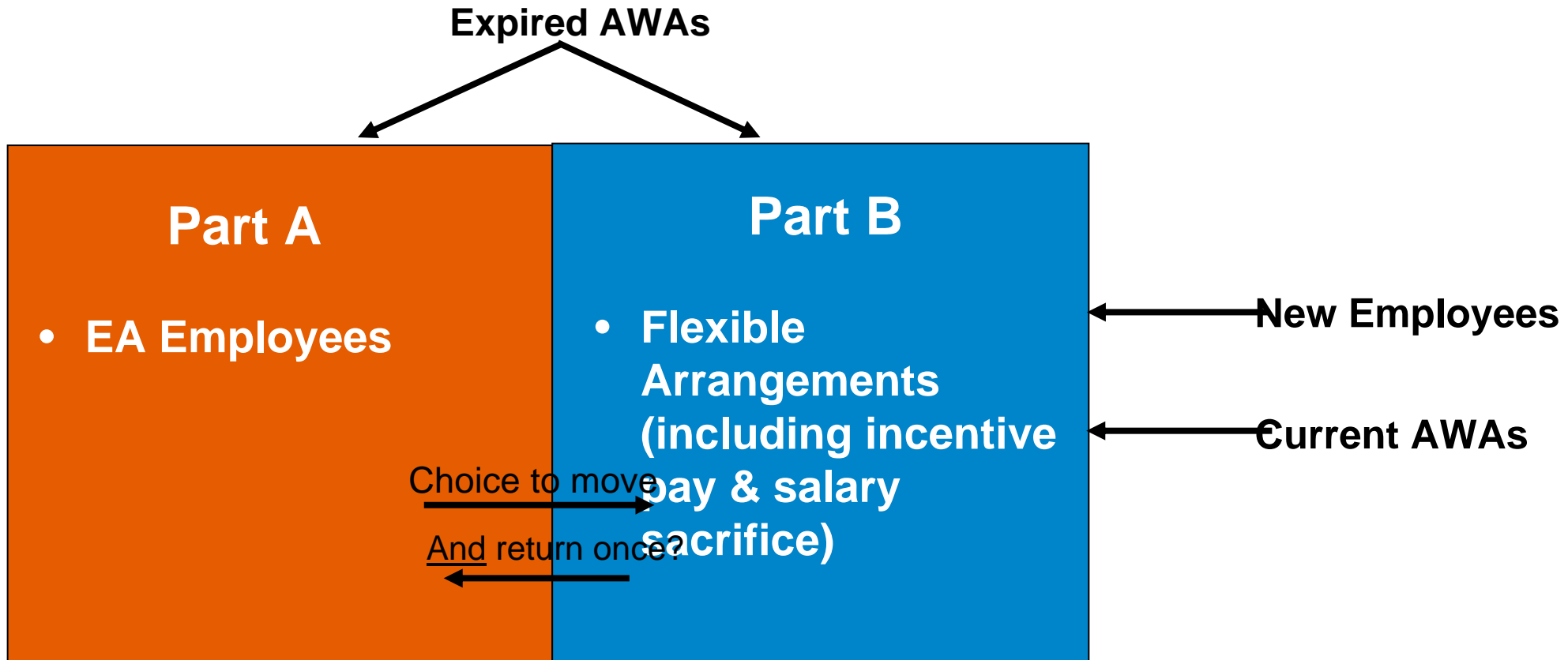
- **Our decisions are informed by our customer and business needs**
- **We engage with our people directly**
- **Our arrangements enhance our people's capacity to meet our customer needs**
- **We pay for high performance and incentivise for results**

“Our future arrangements must meet our business objectives and the needs of our customers and shareholders”

EA Strategy (Feb 2008) - Recap



Part A/Part B future EA structure preserves existing model and protects employee benefits



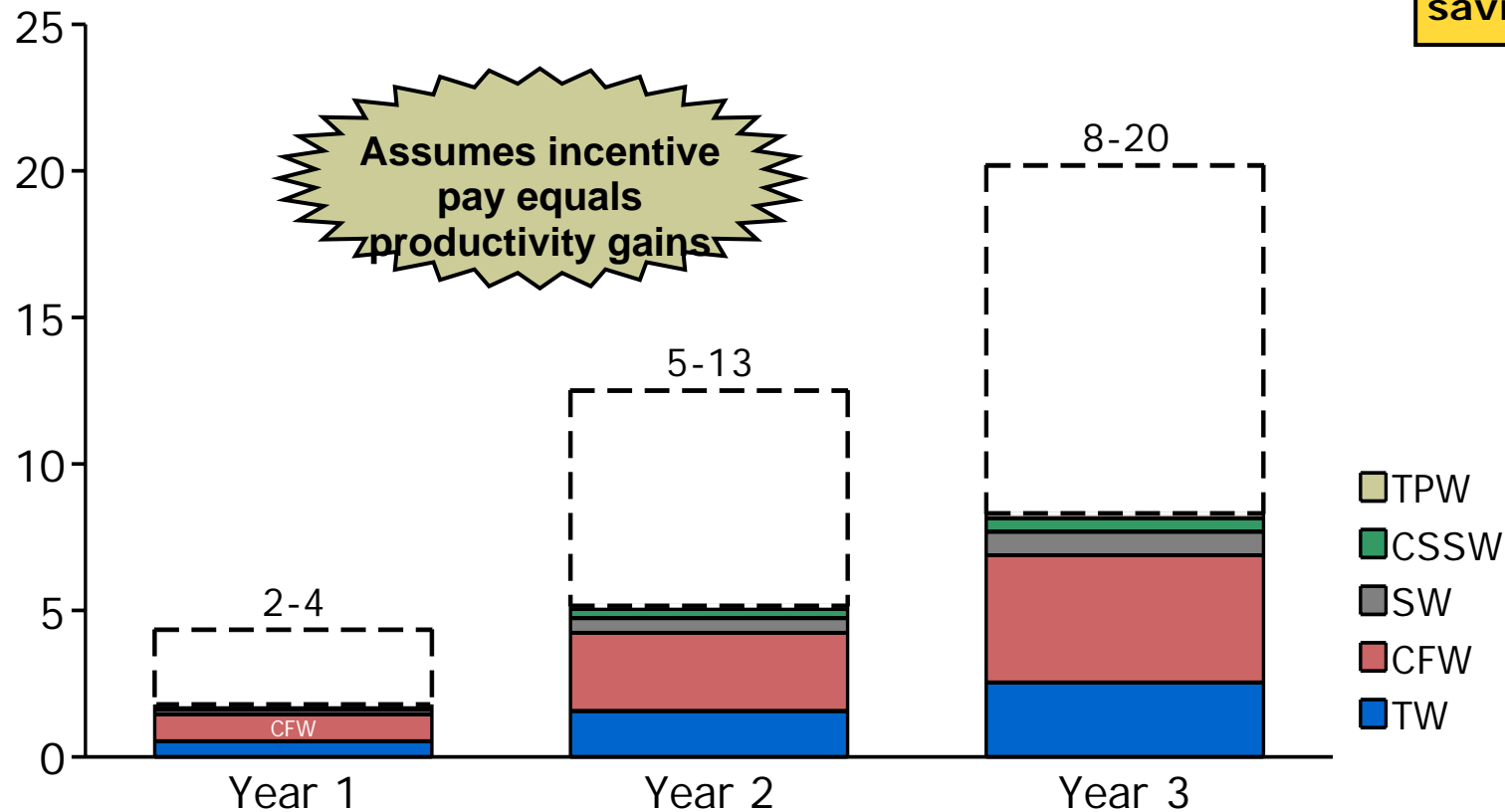
Part A/Part B Model also delivers Business savings – (Bain model - Telstra Ops)



Based on estimated 08/09 recruitment #s

3 year cumulative savings ~\$15-37M

Savings on remuneration costs (\$M)



Employment Strategy – Implementation [DRAFT]

Business Options – No Union EA

- **Option 1 – New Employee EA**
 - Communicate and conduct vote for new employee/business EA (back-pay any increases to first full pay period in October 2008)
 - No policy-based increases if EA vote is rejected - at least until the following remuneration year (i.e. first full pay period in October 2009)*
- **Option 2 – Policy-Based Pay Increases**
 - No proposed new EA
 - Policy-based increases applied as of first full pay period in October (BU discretion within budget)

* Exception may be “top” performers (EE/SE) and

Underpinning Guidelines

- **Employee communications & engagement paramount to the success of the Employment Strategy**
- **On-the-ground manager/employee relationship underpins communications/engagement**
- **Where an employee collective agreement is unsuccessful, no further policy-based increases should be provided during the remuneration year**
- **All increases, regardless of mechanism, should be backdated to 1 October**

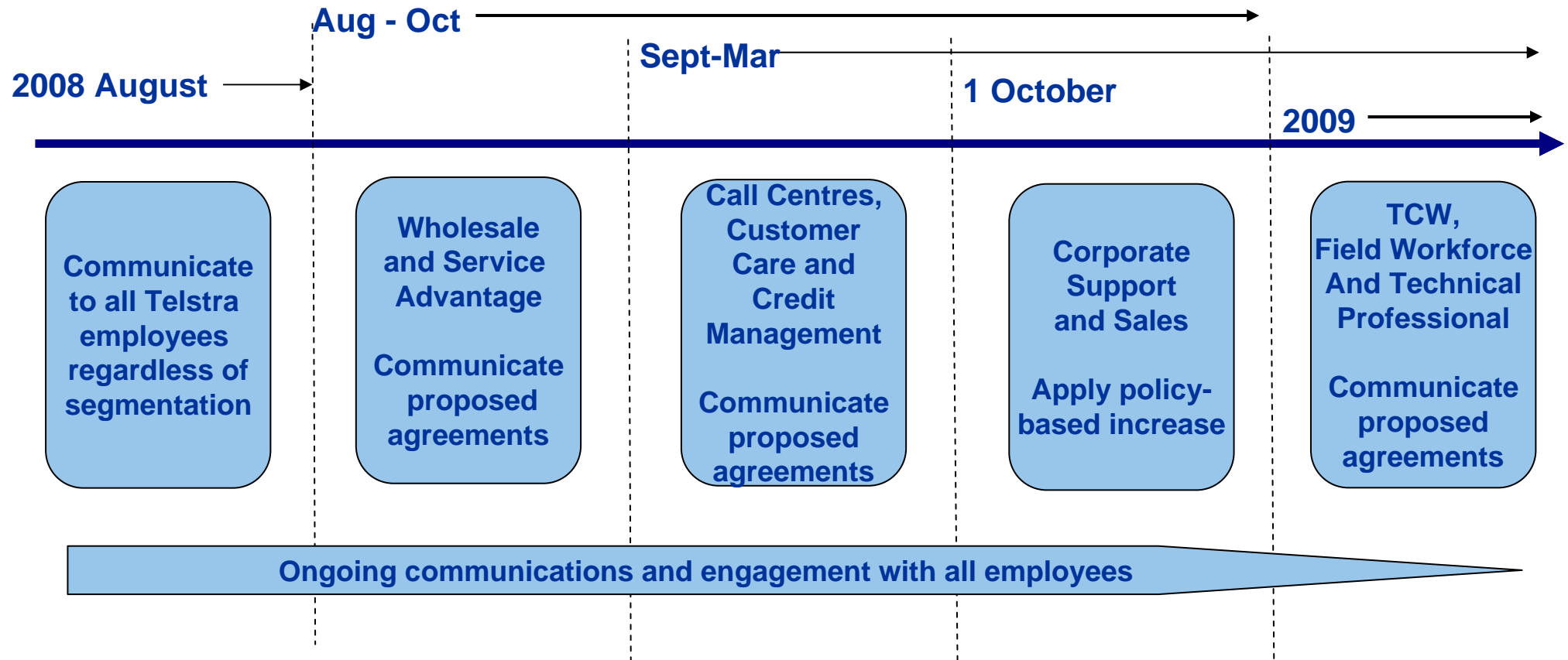
Implementation Recommendations - Summary



Business Area	Recommendation	Timing
Wholesale	Option 1	Aug-Oct
TCW	Option 1	TBD
Service Advantage (call centric)	Option 1	Aug-Nov
Call Centres (TC&C, TB, BP, Iconn)	Option 1	Sept - Mar
Customer Care (TE&G)	Option 1	Sept - Mar
Credit Management (F&A)	Option 1	Jan - Mar
Professional Corporate Support Services	Option 2	First full pay in October
Field Workforce	TBD	TBD
Professional Technical Services	TBD	TBD
Sales (eg. AEs, Direct Sales)	Option 2	First full pay in October

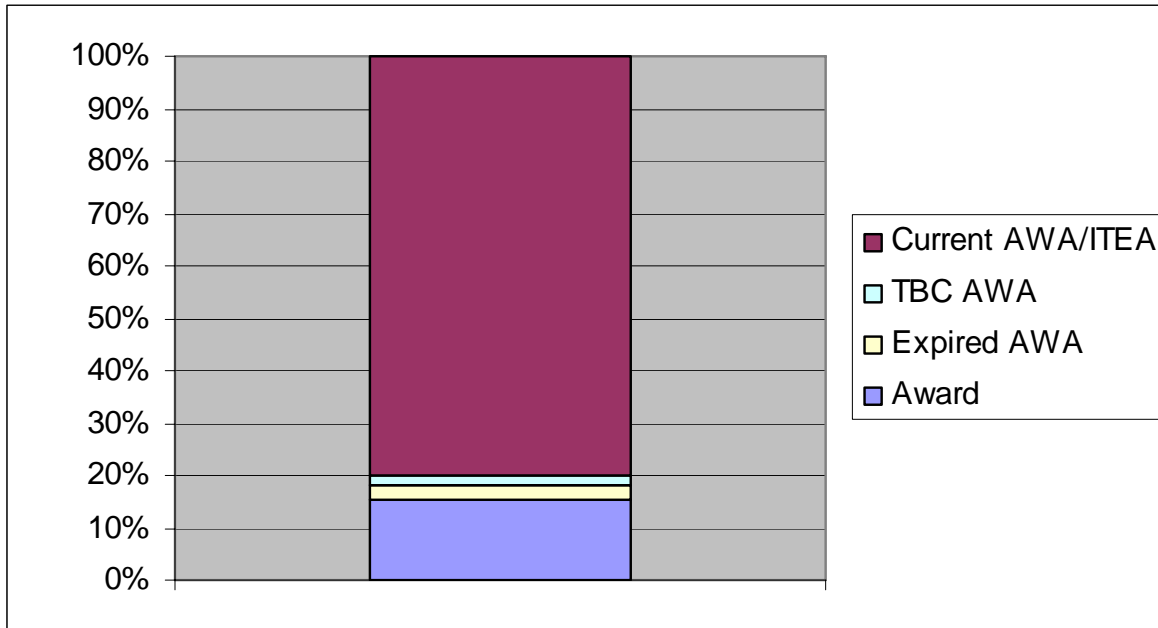
Service Blitz:
August

Indicative Timeline - Implementation



Service Advantage (call centric)

Employment Arrangements



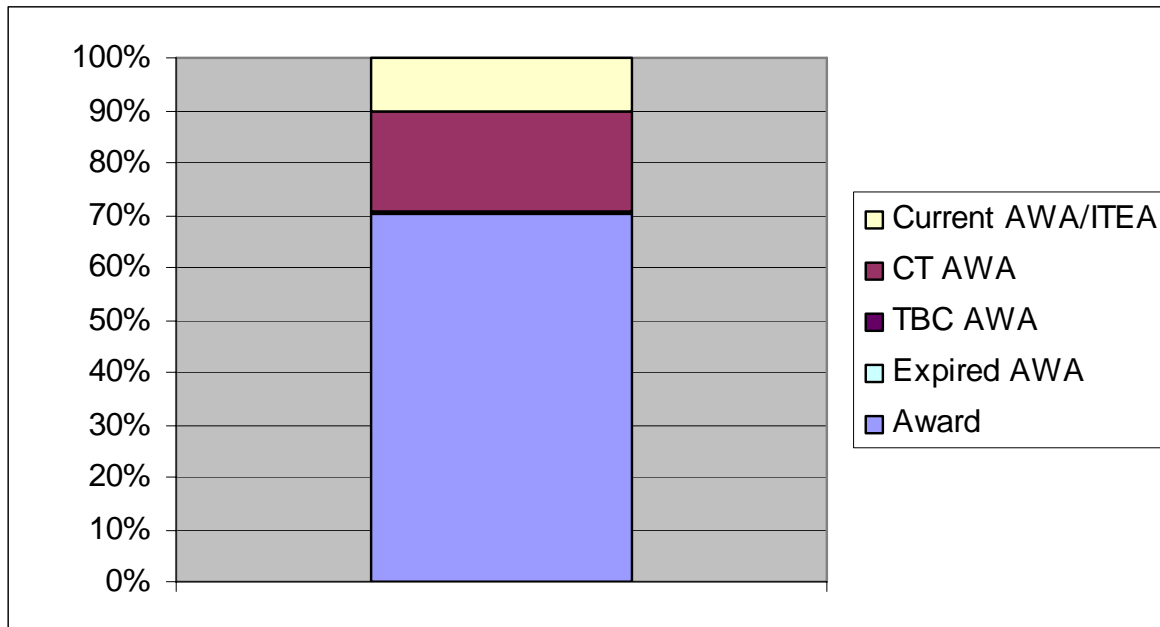
Employment Arrangements	Total
Current AWA/ITEA	350
TBC AWA	8
Expired AWA	12
Award	68
Grand Total	438

Issues for consideration

- 
Positive signals from business for potential success with employee collective agreement

Field Workforce

Employment Arrangements



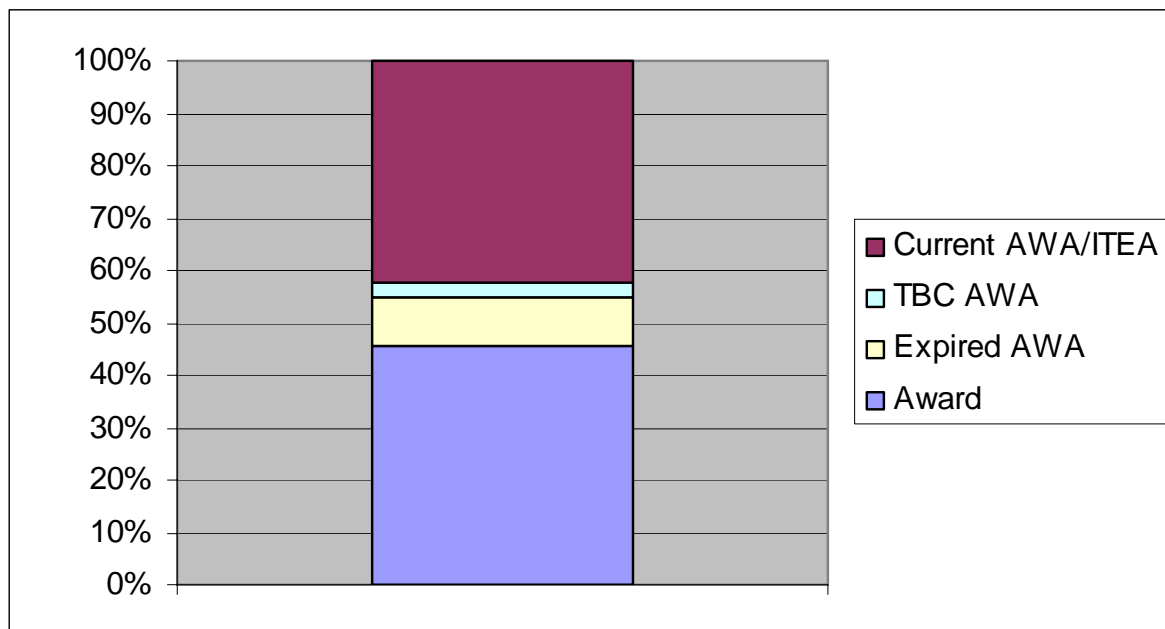
Employment Arrangements	Total
Current AWA/ITEA	502
CT AWA	924
TBC AWA	11
Expired AWA	13
Award	3445
Grand Total	4895

Issues for consideration

- Potential for success given relatively high level of union membership
- Largest population of EA employees in Telstra
- CT AWA reversion promises
- Timing of any employee vote

Professional Technical Services

Employment Arrangements



Employment Arrangements	Total
Current AWA/ITEA	3182
TBC AWA	223
Expired AWA	711
Award	3424
Grand Total	7608

Issues for consideration

- Incorporates technical workforce (i.e. Telstra Operations exc. Field)
- Less clearly defined business group identity (cf: Field)
- Timing of any employee vote

Costs

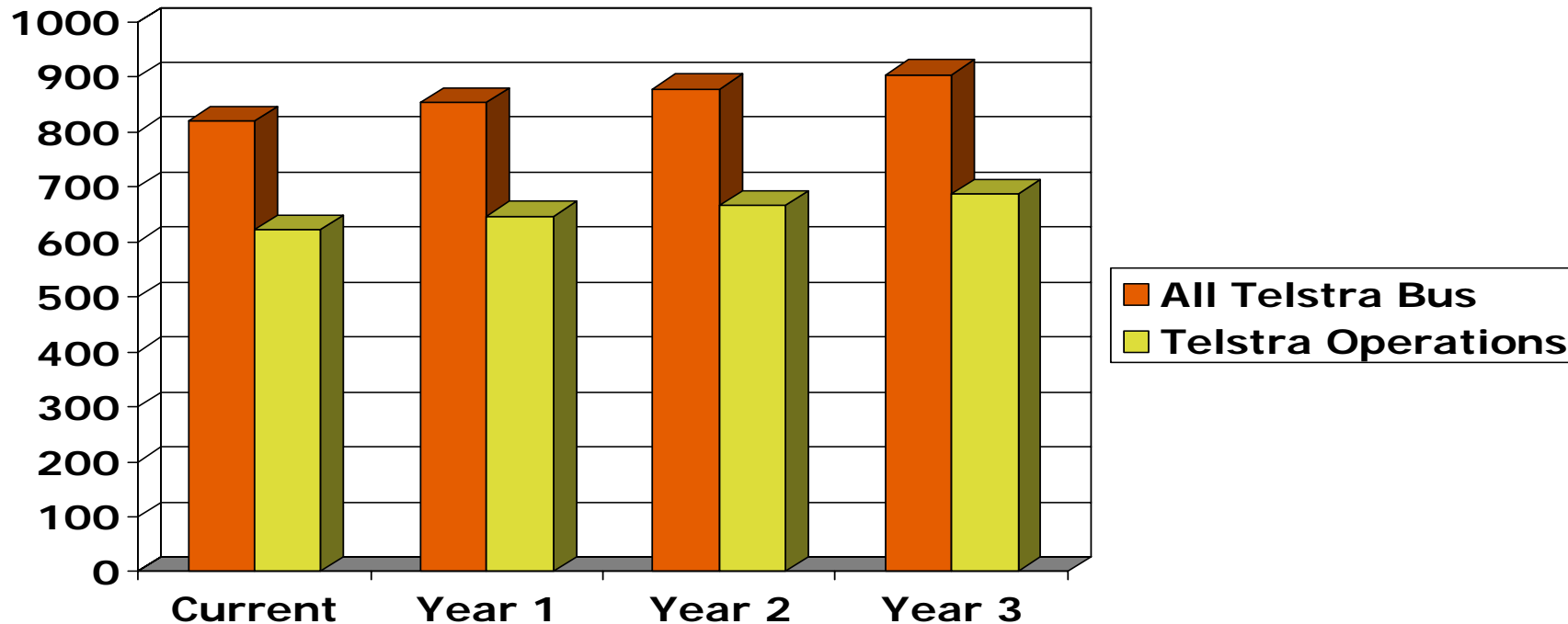
Pay Increase Modelling – For Review

- **New EAs (Option 1)**
 - **Year 1:** 4% increase, additional 1% EE, 2% SE paid as annual incentive
 - **Year 2:** 3% increase, additional 1.5% EE, 3% SE paid as annual incentive
 - **Year 3:** 3% increase, additional 1.5% EE, 3% SE paid as annual incentive
- **Policy-based Increases (Option 2)**
 - No more than 3% (BU discretion)
 - EE/SE may be higher at manager discretion, paid as annual incentive

Note: incentive payments will be paid on the relevant Company Rate that applied as at 1 October of the relevant year. First year increases recognises CPI spike, business budgets and EA expiry date.

Total Employment Costs – EA Population

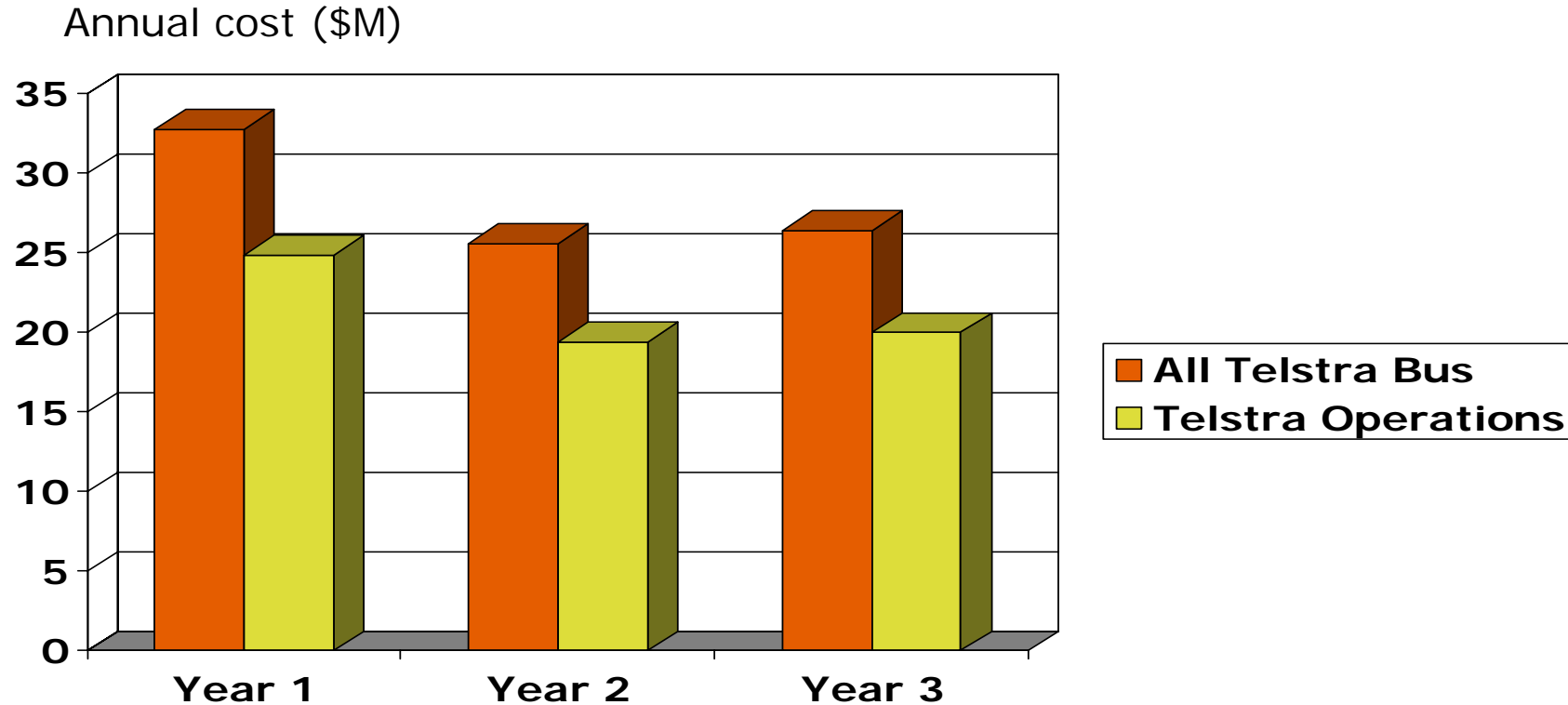
Annual cost (\$M)



Year 1: 4% CR increase
Year 2: 3% CR increase
Year 3: 3% CR increase

Note: All employees of all Telstra Bus, CR includes on-costs

CR increase (year-on-year change)

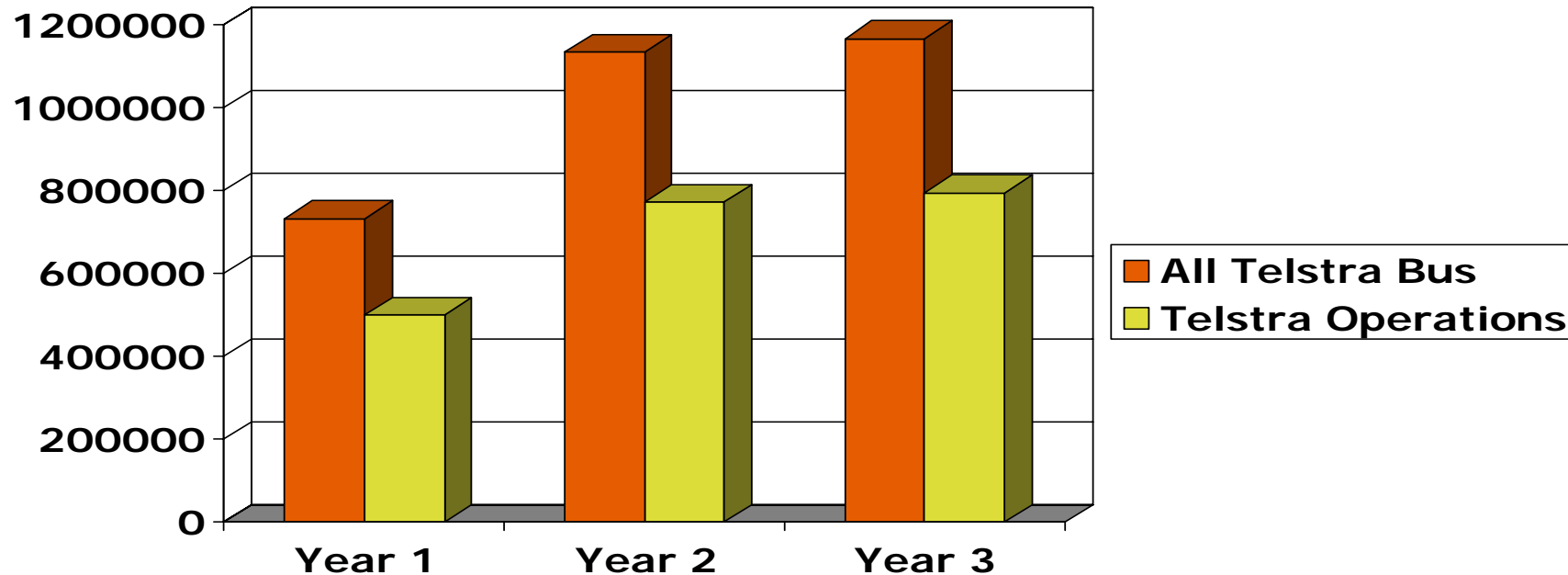


- Year 1: 4% CR increase
- Year 2: 3% CR increase
- Year 3: 3% CR increase

Note: All employees of all Telstra Bus, CR includes on-costs

Cost of Merit-Based Increases is relatively small

Annual cost (\$)



All Telstra total cost over 3 yrs: \$3.03M Yr 1 bonus EE 1%, SE 2%

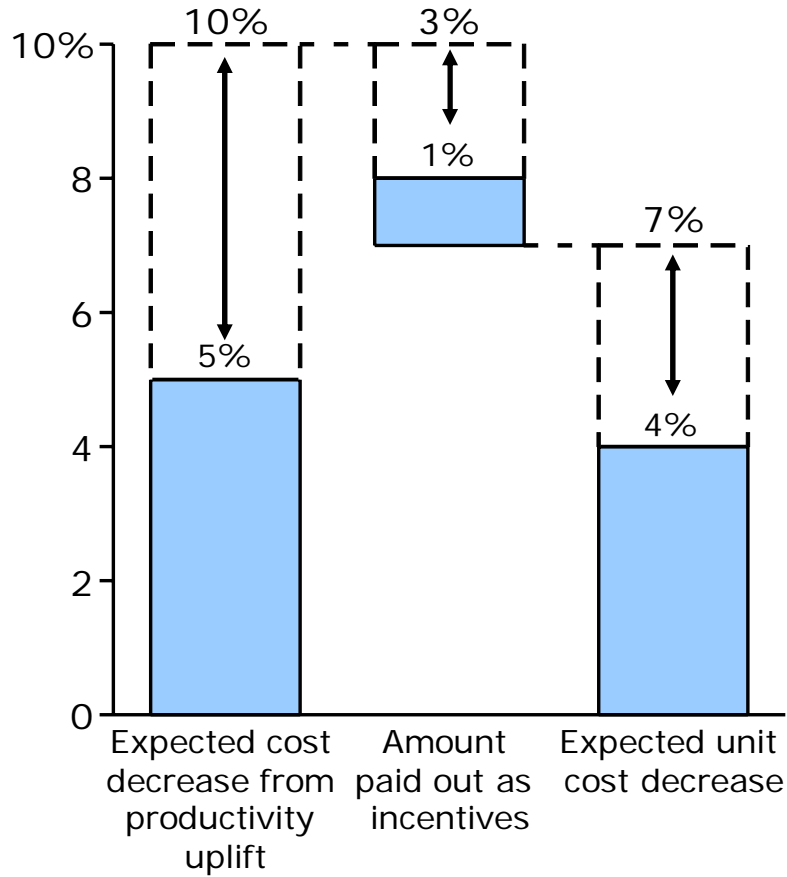
All Telstra Ops total over 3 yrs: \$2.07M Yrs 2 & 3 bonuses EE 1.5%, SE 3%

Service Blitz: Impact of Blitz rolled out to remaining EA CTs in SD

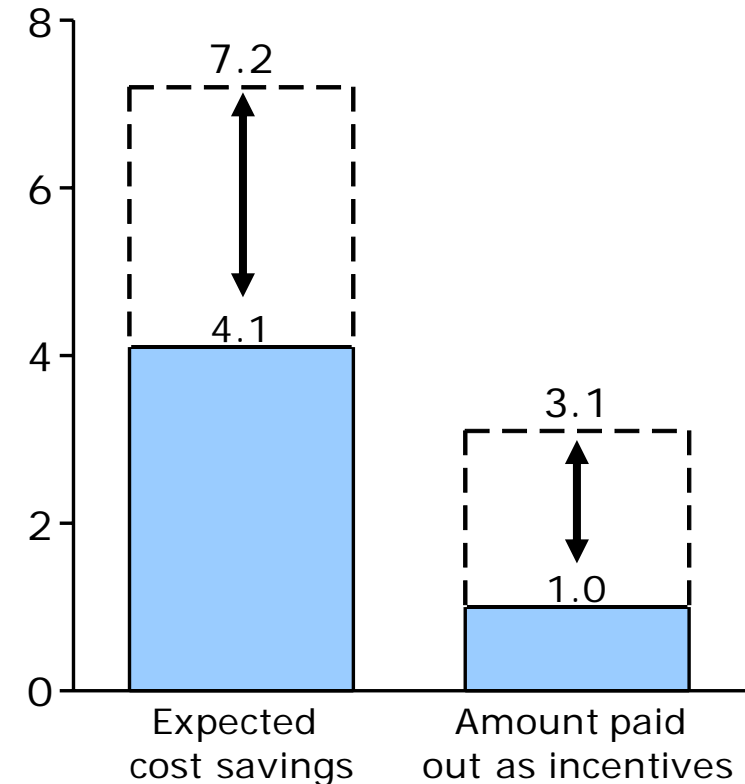


PRELIMINARY

Effect of Service Blitz on labor costs



Annual cost savings and incentive payments (\$M)



Average incentive amount per CT: ~\$500-1600

Note: # of EA CTs to be covered by Service Blitz in assumed at 1990, CFW4 salary of \$52K/p.a.

Mitigation Plan In Place

Mitigation Options: Industrial Action is classified as Low-Mod risk

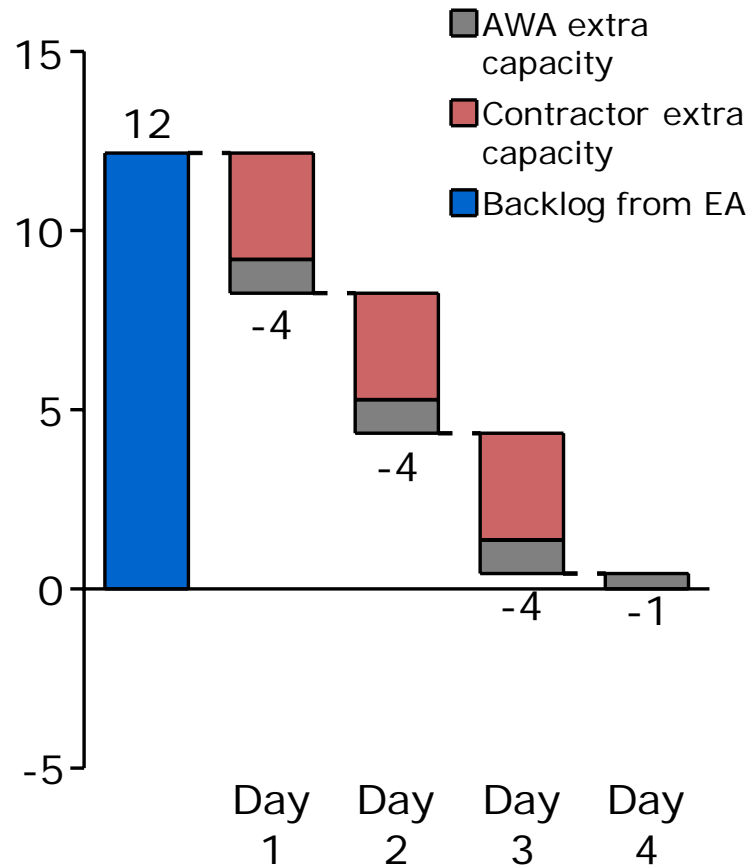


- Risk Assessment has been conducted across the Company –Low-Moderate Risk based on a single day of industrial action.
- No critical processes rely on a single person
- Telstra can utilise AWA employees, industry partners & contract/agency workforce during any industrial action.
- Legal remedies are available and are already prepared
- Many parts of business already are implementing solutions (e.g., Sales ITEAs)

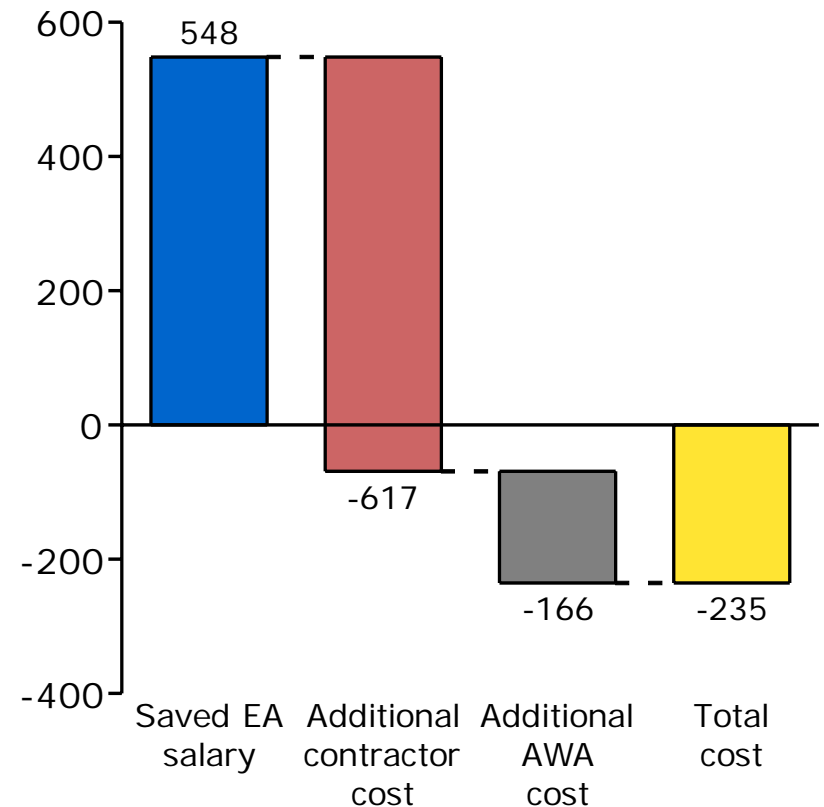
Example: Worst-Case Scenario (80% of EA CTs strike)*



Tickets of work disturbance (K, ToW)



Cost of industrial action (\$K)



*Note: Only 'union members' covered by EA can take industrial action. Actual numbers involved in industrial action in any one day are likely to be closer to 30% (CEPU membership estimate is 35-40%). Costs negligible or zero under likely scenario.