

Analysis of leaked Telstra HR slides, “Employment strategy – Update.”

Content in this document places it as being written around May. It contains slides and information showing as early as February a strategy for non-union, non-negotiated agreements was being planned.

Summary

- The EA negotiations Telstra HR cancelled last month were a charade.
- As early as Feb 08, HR was planning non-union, non-negotiated agreements.
- Non-union, non-negotiated agreements to be rolled out Telstra-wide over the next year.

What does their leaked strategy mean for Telstra workers?

- Real pay cuts planned as HR dip into your pockets to fund transformation.
- Payrises they have planned for your base rates over the next three years do not meet inflation.
- Telstra is not respecting your right to be represented by your union. They are not bargaining over your wages and conditions. This agreement is take it or leave it.

Definitions

The Enterprise Agreement is a union negotiated collective agreement. With a union collective agreement, HR is obligated negotiate with unions who represent staff. HR cancelled these talks. The enterprise agreement wages and conditions remain in place, including the current redundancy agreement even after the expiry date, 5 September, unless replaced by a new agreement,

The proposed “Employee agreements,” are non-negotiated, non-union “collective” agreements. HR negotiates with no-one: not you, not your unions. The slides show HR will roll these out to many business units within Telstra. Note only those on expired AWAs and those currently on the enterprise agreement (EA) or award are eligible to vote.

Background - ACTU/Union position



- **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)**

- This slide outlines some of the rights unions were trying to protect during negotiations – we brought up many issues but clearly these are the ones HR was most worried about.
- In particular HR was concerned that unions
 - Would not ignore the plight of thousands of employees locked into AWAs until 2012,
 - Would not accept complete management discretion on the level of pay rises and performance pay,
 - Would not support a performance system that was not fair, objective and achievable,
 - Would not accept the job classification system where workers base salaries for doing the same work could be completely different,
 - Would not accept pay rises below the level of inflation, and
 - Would not move away from seeking a proper grievance procedure, including a role for an independent umpire.
- This slide incorrectly states the unions required AWA staff to have immediate conversion from AWA to EA – we argued they must be given the choice to move off the AWA at a time of their choosing; and without disadvantage.
- The slide does not acknowledge that unions continually sought to bargain and did not make entering into a formal “constructive relationship agreement” a condition of bargaining.

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)	✓

Telstra in Confidence

GEN-469786

4

Slide 4: Top company comparison

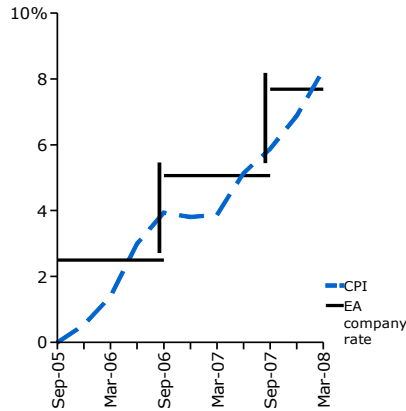
- Tries to convince management that many companies have expiring Enterprise Agreements and that Employee agreements (non-union, non-collective agreements) are acceptable.
- It appears that Telstra HR is including situations where other companies previous Enterprise Agreements have expired but have not been formally cancelled to arrive at its figures.
- Telstra's refusal to negotiate an Enterprise Agreement in good faith when the majority of employees want one is out of step with other big companies and is something Labor's new IR laws will soon make illegal.

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

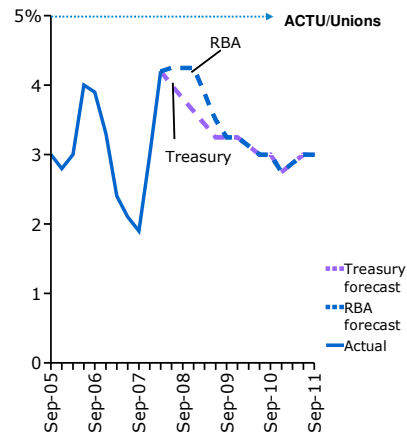
CPI+ Background: Union Approach of 5%+ increases over the life of a new EA does not accord with RBA & Treasury Forecasts (but note the spike in 2nd half of 2008)



Cumulative increase (Since Sep 05)



CPI increase (Rolling 12 month)

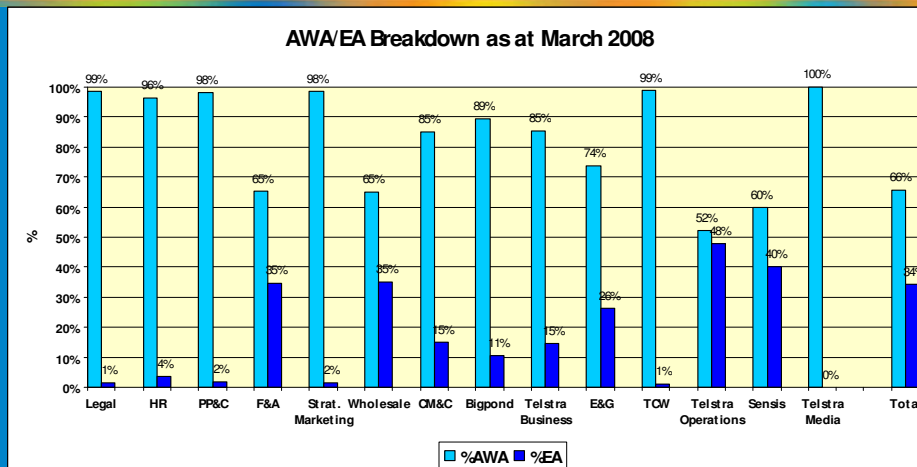


Note: Company rate since Sep 06 have increased with an annual compound rate of 2.5%; Inflation rate beyond Dec 2010 estimated based on RBA target inflation rate
 Telstra in Confidence GEN-469786 5

Slide 5: CPI background (payrise information)

- This slide tries to show that a suggested payrise of 5% is somehow outrageous.
- However, as HR admit in their second package of slides, inflation is now running at 4.5% so in this economic climate, and taking into account productivity improvements, a 5% payrise is realistic.
- Unions argued workers should be compensated for inflation and recognised for their contribution to productivity and efficiency gains.

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



Telstra In-Confidence

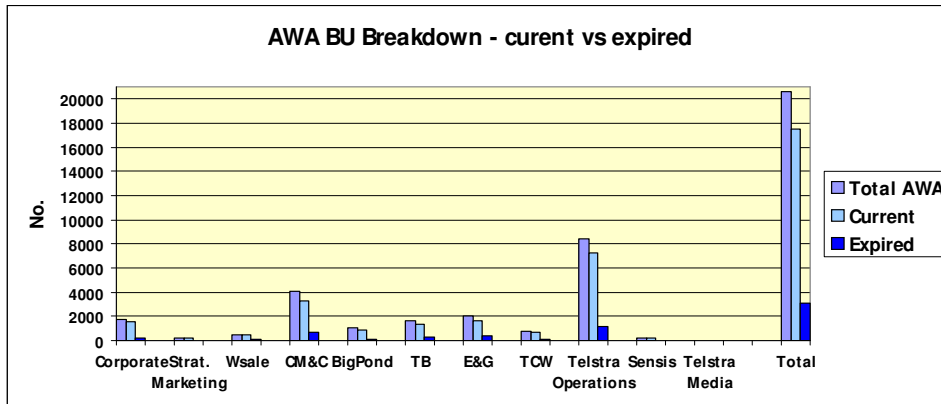
GEN-469786

Slide 6: Telstra's individual contract numbers are at an all time high

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- This speaks for itself: HR are delighted that they could move so many staff onto new AWA individual contracts in the short window following the change of government before Labor's new laws put a halt on them.

Employees on Current Contracts not part of EA Process



Telstra in Confidence

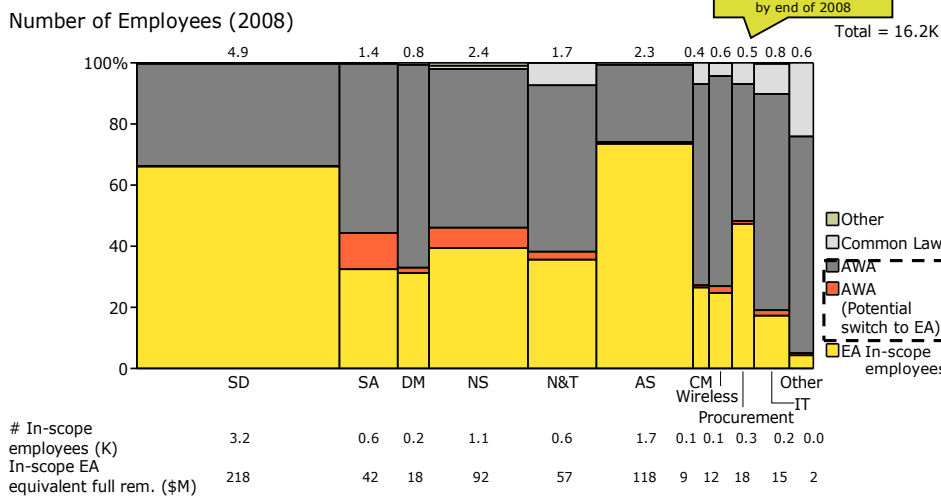
GEN-469786

7

Slide 7: Employees on current contracts on part of EA process

- This slide divides Telstra into business units and shows how many expired and current AWAs there are.

Most EA employees are in Telstra Ops



Telstra in Confidence

GEN-469786

8

Slide 8: Most EA employees are in Telstra ops

- This slide shows nearly half of the company's employees work in Telstra operations.

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- It outlines the cost to the company of having employees on high quality, fair, union-negotiated Enterprise Agreements.

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”

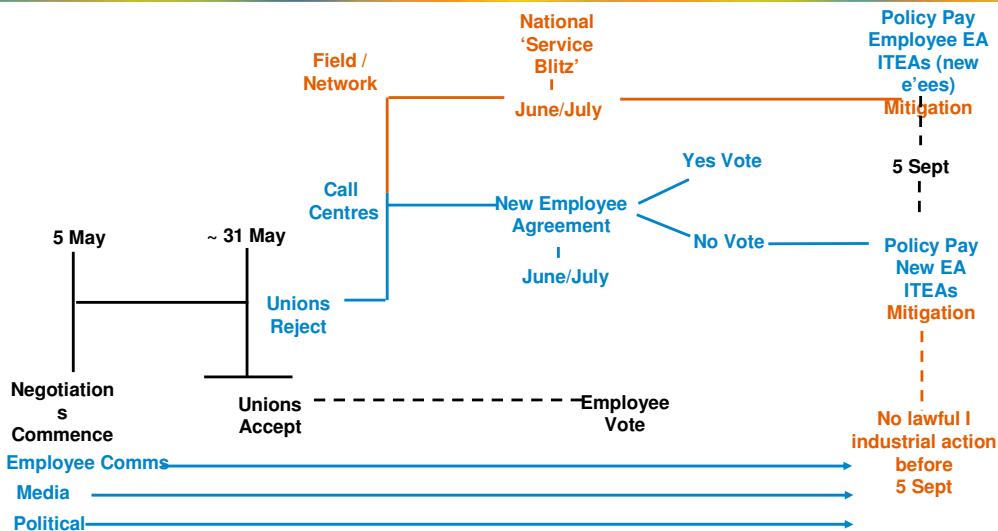
Telstra in Confidence

GEN-469786
10

Slide 10: Employment strategy principles

- This will be familiar to every Telstra worker: the key lines and messages HR use to describe why they don’t want to bargain with you as a group or let you be represented by a union.

EA Strategy (Feb 2008) - Recap



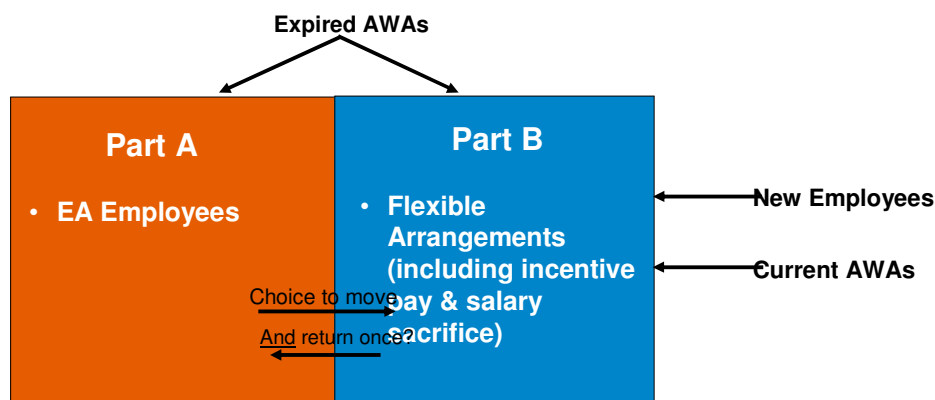
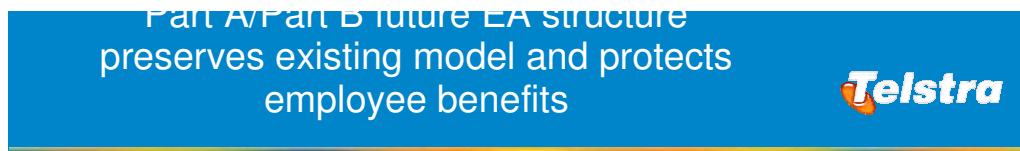
Telstra in Confidence

GEN-469786
11

Slide 11: EA Strategy (Feb 2008) - Recap

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions’ new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers’ helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- This is the slide that shows that Telstra's involvement in all the Enterprise Agreement negotiations which took place earlier this year was an elaborate sham.
- By at least Feb 2008 Telstra HR were planning the roll out of a non-union, non negotiated agreement.
- It is interesting to see the so called "Service Blitz" planned for June/July: this was to trial Telstra's version of performance pay for Enterprise Agreement employees, many of whom do not participate in such schemes now.



Telstra in Confidence

GEN-469786

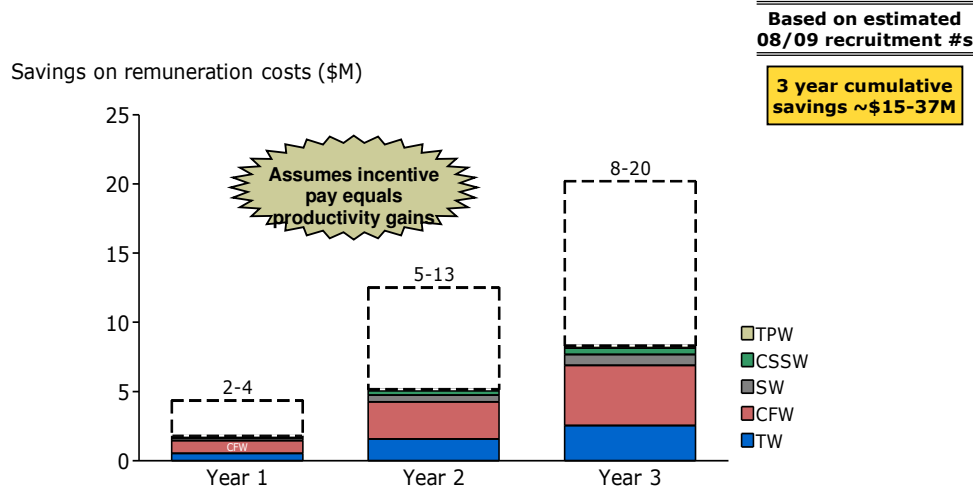
12

Slide 12: Part A/Part B future EA Structure preserves existing model and protects employee benefits

- This slide shows that Telstra is returning to the Part A/Part B divisive strategy they lost in to a vote in call centres last year.
- It divides employees into two tiers. It seems the ultimate goal is to get all employees onto Part B.
- As AWAs inevitably expire and Telstra is unable to renew them because of the reforms to workplace laws, the employees previously covered would go on to part B.
- Part A can move to Part B anytime, and having done so, can return to Part A once only. Employees who start off in Part B (new employees and those coming off AWAs) have no option to move to Part A.
- Their headline previews the spin they'll use to announce this model.

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

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



Telstra in Confidence

GEN-469786

13

Slide 13: Part A/Part B model also delivers business savings – (Bain model Telstra ops)

- Despite HR claiming that they are looking after employees, this slide confirms their strategy would result in cuts of \$15 - 37 million from remuneration costs.
- Bain is an American consulting firm brought in by Sol Trujillo when he took over as CEO.
- When it says over the graph, “Assumes incentive pay equals productivity gains,” it means that they will be expecting you to work harder in order for the company to make those savings.

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

Telstra in Confidence

GEN-469786

15

Slide 15: Business options – no Union EA

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- This slide shows Telstra HR was always intending that there would be “no union EA”. It canvasses two options.
- Option 1: an “employee agreement” – non-union, non collective agreement
- Option 2: the status quo, bide time with “policy based increases”. This means the current Enterprise Agreement technically stays in place, but future pay is adjusted at managers’ discretion ‘within budget’.
- Following slides show they chose option 1 for some areas and option 2 for others (and are undecided of some of the largest areas).
- This slide also reveals their threat. They will hold their loyal employees to ransom with “no policy based increases” if management’s proposed formula is rejected. Unions are seeking legal advice about whether threats of this nature are illegal.

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**

Slide 16: Underpinning guidelines

- This slide shows the role managers will be directed to play in rolling out a non-union agreement. Employee communications and engagement are “paramount,” it says.
- This explains why you have been receiving so many e-mails and videos lately.
- Note there is no concept of ensuring your union gets any time, let alone equal time, to communicate with you and help you make decisions impacting your work life.
- This slide also repeats the threat of having no payrise if the agreement is voted down. This may be illegal.

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

Telstra in Confidence

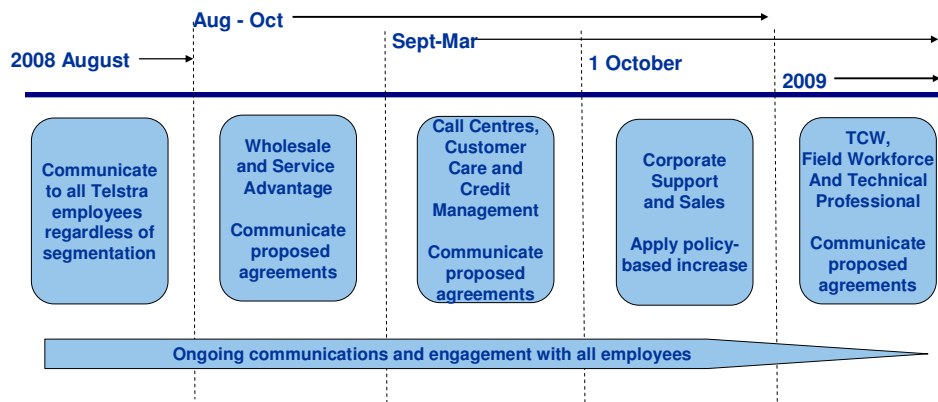
GEN-469786

17

Slide 17: Implementation recommendations summary

- You can see for yourself what is planned for your business area. Most business areas are getting Option 1, ie, management's proposed non-union, non collective deal.
- Telstra are undecided in field and technical areas as they are not confident of success (see later slides)

Indicative Timeline - Implementation



Telstra in Confidence

GEN-469786

18

Slide 18: indicative timeline – implementation

- This slide shows the timeline of non-union, non-negotiated agreements, starting with Wholesale and Service Advantage in August and leading into TCW, Field Workforce and tech/professional in 2009.

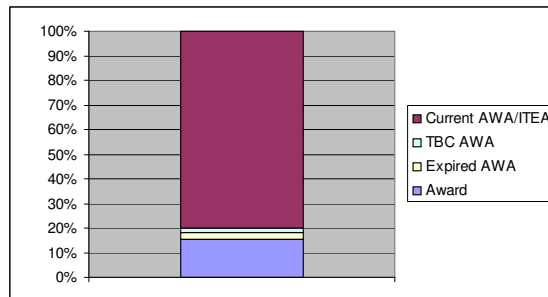
See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- Interestingly they specify again the importance of “ongoing communication and engagement with all employees” – every time your manager emails or briefs you about your pay and conditions they are carrying out orders from HR.

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**

Telstra in Confidence

GEN-469786

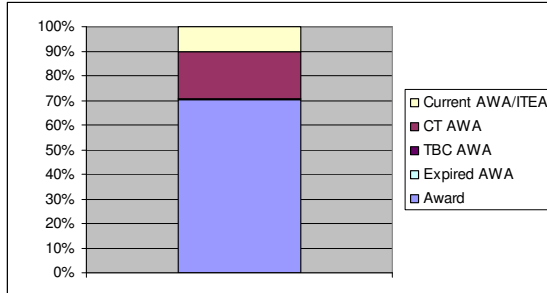
19

Slide 19: Service advantage (call centric)

- This slide profiles in detail the employment arrangements of Service Advantage (call centric) staff.
- Note only the numbers in red, expired AWAs and award votes on the "employee agreement."
- The “issues for consideration” points out that managers think a non-union, non-negotiated agreement will find success with these staff.
- Telstra routinely profiles staff and units to ensure their employment strategies’ success.

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

Telstra in Confidence

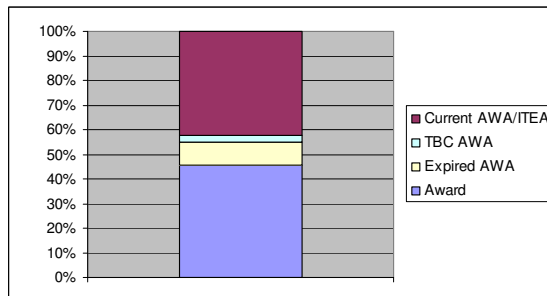
GEN-469786
20

Slide 20: Field Workforce

- This slide profiles the Field Workforce unit and notes that most employees are on the enterprise agreement.
- It highlights that Telstra HR knows unionised staff will be highly suspicious of any agreement that does not allow them access to their union.

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

Telstra in Confidence

GEN-469786
21

Slide 21: Professional Technical Services

- This slide profiles the 7600+ Professional Tech Services portion of the workforce.

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- These slides show that Telstra has a “thin end of the wedge strategy,” identifying the portion of the workforce where a non-union, negotiated agreement is most likely to be successful.

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.

Telstra in Confidence

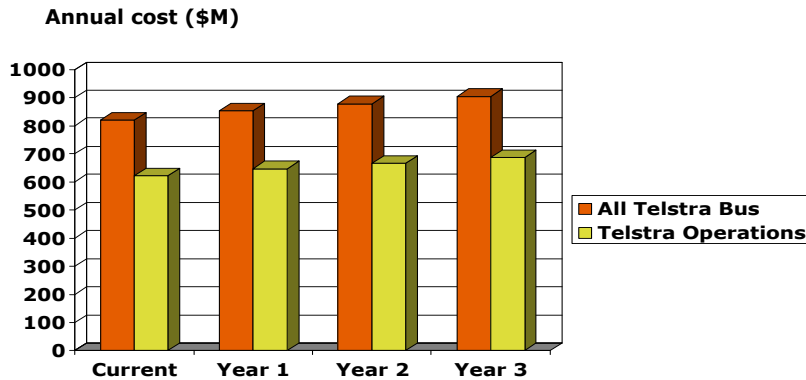
GEN-469786

23

Slide 23: Pay increase modelling

- This slide shows modelling where staff on the non-union, non-negotiated agreements would have a real pay cut to look forward to. Only a 10% increase over three years is guaranteed.
- The rest of the pay increase would be performance-dependent - on whether you EE “Exceeds expectations,” SE “strongly exceeds” expectations.
- For option 2 staff, they would get a payrise of no more than 3%, a real pay cut, at business unit discretion.
- They may or may not be paid further performance pay (at manager discretion).

Total Employment Costs – EA Population



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

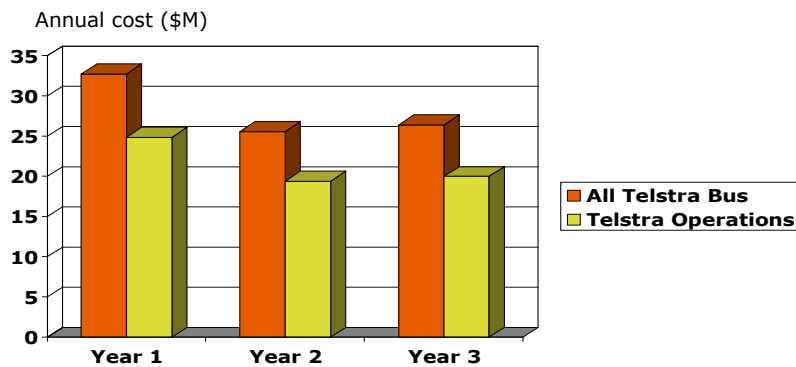
Telstra in Confidence

GEN-469786
24

Slide 24: Total employment costs: EA population

- Telstra costs the proposed pay rises.
- Note the pay rises are only on the company rate (CR), not including grandfathered pay

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

Telstra in Confidence

GEN-469786
25

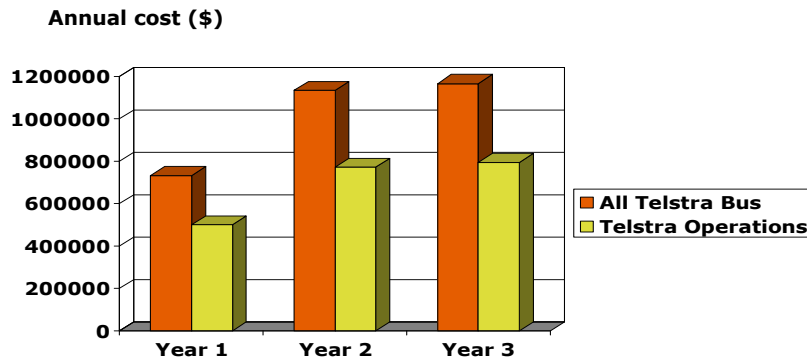
Slide 25: CR increase (year-on-year change)

- Telstra costs the proposed pay rises.

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

Cost of Merit-Based Increases is relatively small

Telstra
PRELIMINARY



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%

Telstra Inc. Confidential incentives applied to all employees (including field)

GEN-469786

26

Slide 26: Cost of Merit-Based increases is relatively small

- This slide is shocking in what it reveals about merit-based increases (performance pay).
- It shows that they have already budgeted a limited, set amount, so if everyone exceeds expectations there will barely be enough to go around.
- It shows that the amount they have budgeted is admitted, by Telstra HR, as being “relatively small.”
- This slide suggests the total pool for merit-based pay rises for EA staff is \$3.03m over three years.
- If you divide this by the number of employees in Telstra operations covered by the EA (c.11,000 employees) this would suggest an average of merit-based increase of \$92 per year.
- That’s just \$1.77 per week before tax!

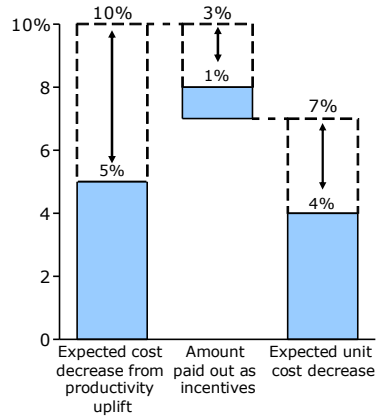
See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions’ new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers’ helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

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

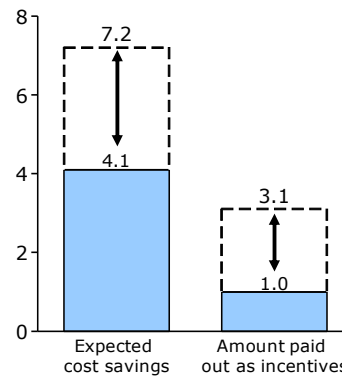


PRELIMINARY

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.
Telstra in Confidence

GEN-469786
27

Slide 27: Service blitz- Impact of the Blitz rolled out to remain EA CTs in SD

- This slide is about the Service Blitz (performance pay scheme) being rolled out to the remaining Enterprise Agreement communication technicians (CTs) in service delivery (SD)
- This slide shows that productivity is expected to increase 10%.
- 3% of that will be paid out as incentives.
- There will be a 7% reduction in the unit's costs.
- The average CT will receive between \$500 and \$1600 per year before tax. That is between \$9.60 and \$30 per week.
- Is that a fair figure increase for working 10% harder?

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)

Telstra in Confidence

GEN-469786
29

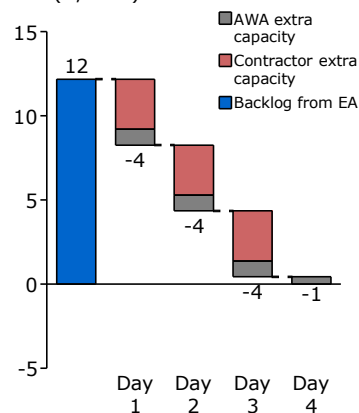
Slide 29: Mitigation options: industrial action is classified as low-mod risk

- This slide shows Telstra realises employees are likely to be suspicious of the non-union, non-negotiated agreement.
- Strike-breaking processes are in place eg “AWA employees, industry partners & contract/agency workforce.”
- Assumes employees on AWAs will do the work of EA employees

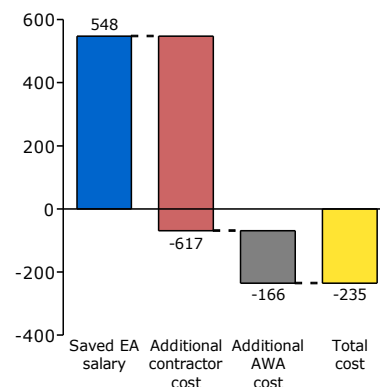
Example: Worst-Case Scenario (80% of EA CTs strike)*



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.

Telstra in Confidence

GEN-469786
30

Slide 30: Example: worst case scenario (80% of EA CTs strike)

- Telstra thinks its workers would never take more than a single day of industrial action.

See the slides for yourself and sign up to receive our analysis via email at the Telstra Unions' new website YourRightsAtTelstra.com. Share your questions and concerns with us: email us on Telstra@actu.asn.au or call our workers' helpline on 1300 362 223. Feel free to pass this document on to your colleagues.

- Demonstrates reliance on contractor and employees on AWAs to avoid impact of industrial action.