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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript – Analyst Briefing – Telstra revises FY19 guidance for nbn Corporate Plan 2019

I attach a copy of the transcript, from the conference call held this morning, in relation to Telstra's revised FY19 guidance for nbn, for release to the market.

Yours faithfully

Sue Laver
Company Secretary

Telstra revises FY19 guidance for nbn Corporate Plan, 6 September 2018 - transcript

OPERATOR: Thank you all for waiting. Welcome to the Analyst Briefing. I will now hand you over to Warwick Bray.

MR W. BRAY: Good morning. We're providing an update this morning to our guidance based on the 2019 nbn corporate plan. The summary is that we're lowering our 2019 guidance total income by \$300 million, EBITDA by \$100 million, net nbn one-offs less nbn cost to connect by \$200 million and no change to free cashflow. Now, the change to guidance today is only due to the 2019 nbn corporate plan, i.e., there's no change due to other factors such as the market or trading conditions. So we have based our revisions today exactly on the 2019 corporate plan rollout targets, i.e., we've accepted and agreed with those targets. We've then had to make some judgments on top of this. So, for instance, we get paid PSAA's on disconnections and the plan provides us with activations. So there's some judgments going from activation to disconnection.

We expect that the changes will be financially positive to Telstra over the course of the nbn rollout due to the positive impact of the natural hedge. I will make some comments now on the factors that influenced the change in guidance.

So the one-off payments in FY19 reduced due to a fewer number of PSAA payment instances in FY19, due to lower number of disconnections. That's partly offset by fewer Telstra customers connecting to the nbn and, hence, lower connection costs. We've also widened the one-off guidance range by \$100 million.

The EBITDA figure changes by less than the decline in one-off payments and that's due to a lower number of Telstra subscribers on the nbn and, hence, lower CVC/AVC payments and continued higher wholesale revenues. The free cashflow is unchanged and that's due to the timing of the PSAA payments and cash where we get paid quarterly in arrears. So with that introduction, I will open to questions and could we please ask that these questions are related to this announcement. Thank you.

OPERATOR: We do have a few questions. We're just grabbing some information. We do have a question from Eric Choi from UBS. Go ahead please.

MR E. CHOI: Hey Warwick, thanks for the questions. I just have a couple. Presumably, I guess, the FY19 rollout would have been a little lower than your expectations, but FY20 feels like it would have been higher, so just wondering, does that change your thinking around the phasing of your productivity targets? That's question 1. And then just question 2 – I guess because this does pertain to the future nbn gap versus productivity, can you just remind us how much overlap there is between that \$1.8 billion of productivity benefit to go? How much of that actually feeds into keeping the remaining nbn gap at \$1.6 billion?

MR BRAY: Yes. So in terms of the timing of our productivity targets, the change in the phasing of the nbn corporate plan doesn't change our productivity targets which are mostly on our fixed costs. And so, yes, there's nothing to change there. In terms of our costs, where it will vary our costs will be on the CVC/AVC's, and on our costs to connect. So those will change, of course, but on the fixed cost reduction target of \$2.5 billion nothing changes as a result of this plan. And in terms of the \$3

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billion impact of the nbn there is some cost reduction involved in that because the \$3 billion cost of the nbn has some negative impacts on our economics like, for instance, we're paying CVC/AVC. It has some positive impacts in there as well such as the recurring nbn payments and there's some cost reductions that we can achieve in the fixed business that we otherwise couldn't have if the nbn didn't exist. And so there are cost reductions in there. We actually haven't said how big they are but they're a small part of the overall \$3 billion.

MR CHOI: Thanks, Warwick.

MR BRAY: Thanks, Eric.

OPERATOR: Thank you. And the next question we have is from Kane Hannan from Goldman Sachs.

MR K. HANNAN: Good morning, Warwick. So for me, I suppose on the corporate plan and they've given the expectations out to FY22 now, give us a sense of when you think the PSAA payments will actually finish from Telstra's perspective and whether that has moved out at all post the corporate plan. And then just around, I suppose, widening the range of one-off payments post getting the corporate plan – I suppose anything we should be reading into that in terms of your confidence of the plan as a result of Friday last week or just comments on that would be interesting.

MR BRAY: Yes. Thanks, Kane, and good morning. So the nbn corporate plan still has the rollout finishing in FY20 and so there's no difference to the timing of when we get the main bulk of the PSAA payments. Obviously there's a difference in phasing between '19 and '20 but there's no change in our views after that. Then – I'm sorry, what was the second question?

MR HANNAN: Just around the decision to, I suppose, widen the range post the corporate plan.

MR BRAY: Yes. Thanks, Kane. Yes, so on widening the range the main reason for that is that we get paid on disconnections and the nbn corporate plan gives us activations and there is actually some quite important timing differences in that which I can go into in more detail – about the difference between activation and disconnection. There's important timing differences there and so that's what was behind it. So it's the difference between disconnections that we get paid on and activations that is what is in the nbn corporate plan.

MR HANNAN: Thanks very much.

OPERATOR: Thank you. And the next question is from Eric Pan from JP Morgan.

MR E. PAN: Good morning, Warwick. Thanks for the update; just two from me. In nbn's revised plan it seems that total subscriber payments over the remainder of the rollout are \$300 million less than before. Does that mean the total one-off nbn payments coming to you will be reduced by the same amount? And the second question will be how does the increase in nbn's fibre to the curb rollout plan impact you in terms of one-off and recurring payments?

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MR BRAY: I'm sorry, I didn't hear the second question.

MR PAN: Yes. How does the increase in nbn's fibre to the curb rollout plan impact you in terms of one-off and recurring payments?

MR BRAY: Yes. So in terms of the total payments we do not expect our total payments for PSAAs to change. The line that you're referring to has got more in it than just payments to us and to dig into that further that is a question for the nbn. In terms of the fibre to the curb, that doesn't have any material impact on us. We get paid the same PSAAs.

MR PAN: Thank you.

OPERATOR: And there's no more questions registered.

MR BRAY: Thank you and good morning and thank you for dialling in. Goodbye now.

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[9.10 am]