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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra's Digicel Pacific partnership with the Australian Government – briefing transcript

I attach a copy of the transcript from the briefing held yesterday in relation to Telstra's Digicel partnership announcement, for release to the market.

Authorised for lodgement by:

Sue Laver
Company Secretary

Introduction

Nathan Burley: Hello everyone, and welcome. I'd like to begin by acknowledging the traditional custodians of the land on which I'm speaking today, the Kulin Nation, and pay my respects to their Elders, past, present and emerging.

Today I have Telstra CEO, Andy Penn, and our CFO, Vicki Brady, on the line, to update you on this significant announcement we have made to the ASX this morning, our acquisition of Digicel Pacific. Andy will run through details on the acquisition, and Vicki will talk through some of the financials. We will then open for Q&A. Guy Wylie, Head of Corporate Finance, and Oliver Camplin-Warner, CEO of Telstra International, are also on the call today to answer questions. To ask a question, please press star one. When the investor Q&A is complete, I will hand over to my colleague, Nicole McKechnie, who will manage media Q&A.

Andy, over to you.

Presentation from Andrew Penn

Andrew Penn: Thanks very much Nathan. And good morning everybody, thanks for joining, particularly at short notice. And can I also just say hopefully everyone's continuing to do OK, and hopefully some of you are starting to enjoy the benefits of some new found freedoms with the lifting of restrictions.

As Nathan said, today we are really excited that we are partnering with the Australian Government and announcing the acquisition of Digicel in the South Pacific. As you may have already seen from our previous ASX statements on this subject, we were initially approached by the Australian Government to provide technical advice in relation to this business, and we subsequently considered acquiring the business with financial and strategic risk management support from the Government.

We also said that in addition to a Government funding and support package, that any investment that we did make would have to be within certain financial parameters, with Telstra's equity investment being the minor portion of the overall transaction financials. So I'm pleased to say that we've been able to achieve both of these outcomes, and that the Telstra Board has unanimously agreed the transaction is in the best interests of shareholders.

The Digicel business will be owned and operated by Telstra. We'll contribute US\$270 million of the equity to the [US]\$1.6 billion purchase, and we will own 100% of the ordinary equity. The Australian Government, through Export Finance Australia, is providing the remaining [US]\$1.33 billion through a combination of

non-recourse debt facilities, and equity-like securities.

Digicel Pacific is a leading provider of communications services across Papua New Guinea, Fiji, Nauru, Samoa, Tonga and Vanuatu. The company has 1,700 employees who support around about 2.5 million subscribers, including 1,500 small to medium businesses, 250 large enterprises, and 200 corporates in PNG.

If I refer you to slide 3 of the ASX attachment, if you have it available there in front of you, you can see that Digicel enjoys a strong market position in the South Pacific region, holding a strong number one position in every market other than Fiji, where it is the significant number two.

Digicel Pacific has already invested significant capital in PNG, which is its largest market through its extensive network coverage, including 4G coverage to now, I think it's about 55% of the population. And the combined business generated EBITDA of US\$233 million for the financial year ended 31 March 2021, which is at a very healthy 54% EBITDA margin.

Around 77% of its revenues is generated from its mobile business, which is largely prepaid, and the balance from business solutions, TV and broadband services. And again, if you're looking at the release with the attached slides, you can see that breakdown on slide 5.

When the transaction completes, which is obviously subject to obtaining the various different Government and regulatory approvals across the region, which we expect to take three to six months' time, just because of the number of jurisdictions that we'll be dealing with, and that will coincide with roughly when our corporate restructure is being contemplated and progressed. So we will run Digicel Pacific as a separate business within Telstra International, which will become, as I've previously said, the fourth subsidiary of our new Telstra holding company, in line with that restructure.

Given Digicel's strong brand equity and recognition in the region, and in alignment with our intention to operate Digicel Pacific as a separate business, the Digicel brand will continue to be used in Pacific markets. The current Digicel Pacific management team will also continue the day to day running of the business, and they will report to Telstra International executive, Oliver Camplin-Warner, who is with us today on the call. And it will be subject to oversight from the newly formed Board of Directors for Digicel Pacific Group, which will be comprised of majority of Telstra executives.

I think the deal represents a very important milestone in Telstra's relationship with the Australian Government, who are strongly

committed to supporting private sector infrastructure investment in the Pacific region. Australia has deep personal, historical and cultural ties with the Pacific, forged over decades of sustained engagement, and Telstra, via our International team, has been doing business there for decades.

We believe this opportunity is very attractive for a number of reasons. Firstly, the strong economics of the Digicel Pacific business. Secondly, the alignment with Telstra's core strengths. Thirdly, it also aligns our role as a provider of international voice data and ICT services to the South Pacific region. And lastly, as I've mentioned, the strong support of the Australian Government.

And it's also consistent with our recently announced ambition for our International business, which is to drive profitable growth and value from the growing strategic significance of our international network as part of our T25 strategy.

So Nathan, with those introductory comments, thank you everybody for hooking in and listening in. And as Nathan says, I'll now hand over to Vicki who can talk to you a little bit more about the financials. Vicki.

Presentation from Vicki Brady

Vicki Brady:

Thanks, Andy, and hi everyone. And let me add my thanks to you all for joining us at short notice. As Andy mentioned, Telstra is contributing US\$270 million of equity to the [US]\$1.6 billion purchase of Digicel Pacific. We will own 100% of the ordinary equity, and will consolidate 100% of earnings through our P&L.

The Australian Government, through Export Finance Australia, is providing non-recourse debt facilities and equity-like securities totalling US\$1.33 billion. Telstra will contribute US\$50 million of equity to the additional US\$250 million earnout for the vendor if the business performance hurdles are met.

Under the agreement with Export Finance Australia, we are entitled to receive a preferred return of US\$45 million per annum for the first six years. This means we expect to receive our initial equity investment back in dividends. After payback of our initial equity investment, Telstra equity returns are post debt repayments.

The Government has provided US\$720 million of competitively priced long term, that is 10 year, debt facilities, and their US\$610 million of equity-like investments do not have a term. A small component of the debt amortises each year.

The debt is non-recourse back to Telstra. with no cross-default into any other Telstra debt or assets outside of Digicel Pacific. The

US\$720 million of Government funded debt will consolidate onto our balance sheet, and we remain committed to balance sheet settings consistent with an A band credit rating, as stated in our capital management framework.

The US\$610 million of Government equity-like securities will be recognised on our balance sheet as a non-controlling interest, reflected in total equity.

Other support provided by the Government includes for cash repatriation from the regions, FX protections, and political risk insurance for six years. Telstra also cannot exit until after year 6.

The transaction is expected to deliver an attractive IRR, and exceeds all our M&A criteria. And just as a reminder, they are EPS accretive, ROIC above WACC, and more accretive than a share buyback of a similar size. We also expect the transaction to be accretive to earnings per share.

The transaction implies a multiple of 5.8 to 6.9 times FY21 EBITDA for Telstra for the acquisition of Digicel Pacific. This is based on the purchase price excluding the [US]\$250 million of Government equity-like securities, that rank behind Telstra's ordinary equity with limited rights to distributions.

Digicel Pacific, as Andy just mentioned, also has attractive financials. Digicel Pacific generated US\$431 million in service revenue, and EBITDA of US\$233 million for the financial year ended 31 March 2021, with an EBITDA margin of 54%. We expect medium term capex to sales ratio for the business of around 15%.

Digicel Pacific has two and a half million subscribers, generating an US\$11 ARPU. Our FY22 guidance does not include any allowance for the Digicel Pacific acquisition, which will further enhance our outlook, depending on the timing of completion. I would also note this transaction causes no change in our previous comments on capital management at our recent Investor Day, and from our Chairman at the AGM.

We continue to expect cash flow to remain ahead of accounting earnings, largely due to structurally lower capex than D&A, by around \$600 million. This strong cash flow allows us to make this investment, whilst still maintaining flexibility to invest for growth, and return excess cash to shareholders.

I look forward to answering your questions. And I'll now hand back to you, Nathan.

Nathan Burley: Thank you, Vicki. We'll now move to investor and shareholder and analyst Q&A. And our first question comes from Eric Choi from Barrenjoey. Go ahead, Eric.

Eric Choi: Morning team. Thanks very much for the questions. The first one was just on the impact to the balance sheet. Just wondering which parts of the EFA you'll consolidate onto your net debt, and then roughly how much Telstra's Group net interest goes up as a result of this transaction?

Second question just around impacts on long term free cash flow. At the moment, there's this 6 to 7 cents gap between EPS and free cash flow per share. And I'm just wondering, after we factor in any working capital, any network upgrades above that 15% capex to sales target, if we can still – well, infer that this transaction is additive to that free cash flow and EPS gap?

And then just a last question; wondering if the completion of this deal helps at all with the timing of any of your other initiatives? I'm thinking of things like your buyback and also the InfraCo legal restructure. Thanks a lot.

Andrew Penn: Thanks very much, Eric. I'll get Vicki to take the bulk of those in relation to the balance sheet and the free cash flow impact. In terms of the impact on net debt, I think Vicki will confirm it won't push it up, in fact, it would push it down a little bit in terms of the cost of debt.

But in terms of the impact on the buyback, it's obviously something that it was important to announce first, and then the Board will obviously have to make a decision around being in position to do the buyback. So it is something that was important for us to announce, in terms of it doesn't have a bearing on other factors. I mentioned in my comments that ultimately we will have this business effectively owned by Telstra International, which will be the fourth subsidiary of our restructure, but it's not in that sense dependent on the restructure. But Vicki, maybe if I pass to you for those further questions.

Vicki Brady: Yes, thanks, Andy. And thanks, Eric, for those questions. So firstly, just in terms of the balance sheet, and which components of the funding from EFA are reflected on balance sheet. So firstly, the senior debt that totals US\$720 million, that will be consolidated into debt on our balance sheet, and the equity-like securities that total US\$610 million, they will be consolidated into total equity as a non-controlling interest.

And just in terms of interest, so if I look at the debt, the senior debt of US\$720 million, the interest rate on that debt will be modestly below Telstra's blended cost of debt today. So very competitively

priced debt on the senior debt. And so obviously there will be some small increase in our overall interest costs. But, as I said, competitively priced, and modestly below our current blended cost of debt.

Just in terms of free cash flow. So the acquisition of Digicel Pacific is accretive to us from a free cash flow point of view. And as I said, we expect that structural difference between accounting earnings and cash flow to continue, it doesn't affect that. So accretive from free cash flow point of view. So I think I've covered off the questions you had Eric, in terms of balance sheet and free cash flow. So Nathan, back to you.

Nathan Burley: Thank you, Eric. Our next question is from Lucy Huang from B of A. Go ahead, Lucy.

Lucy Huang: Thanks Andy and Vicki, I've just got three questions. In terms of that [US]\$45 million preferred return, within the next six years, is there scope for that to increase at all? Or is there any circumstance that could see that [US]\$45 million recoup back a lot faster?

And then secondly, just with the [US]\$250 million additional earnouts, are you able to give us some colour as to what are some of the performance hurdles that are embedded within those?

And then just thirdly, with the Digicel business, I'm just wondering, moving forward with this strategy, is this the story around subscriber growth, or is there scope for ARPU growth? Just wondering where the growth in this business will come from over the next few years? Thanks.

Andrew Penn: Yes, look, thanks very much, Lucy. It's Andy. Why don't I take the second couple? I think the answer on the first one is that I think there are circumstances in which the [US]\$45 million could be higher. But I don't think you should assume that. I think that that's what we expect it to be. But I mean, the important point is that that [US]\$45 million is sort of effectively underwritten. So that means that we get a payback of our equity by the sixth year. And at that point, we own the business 100%, obviously subject to the outstanding debt liabilities and other equity-like instruments, but we own it 100% at that point.

In relation to the performance hurdles, I mean, as you can imagine, on deals like this, as a potential acquirer, we take a somewhat conservative perspective on what the trajectory of the performance of the business will be. And of course, we, if you like, make that even more conservative in the context of the current environment with COVID, and just trying to understand what the impacts of that will be over the next short period of time.

On the other hand, the vendor will have a perspective of what they think the business performance would be. So their business plan, before we started the conversation, has a slightly higher level of – or has a high level of growth, particularly around revenue and subscribers, and ARPU. And it's really the difference between those two perspectives that really determines the difference in the potential for the performance payment to be made.

And I think candidly, if the business does perform at a higher level, we won't be unhappy funding the increased consideration in conjunction with the EFA, because the business value will increase accordingly.

I might ask Oliver Camplin-Warner, he might like to comment on the future for the growth opportunity for the business, because he's going to be running it, and he's spent quite a bit of time already on the ground and with the due diligence as I have, so it would be good to hear directly from him maybe. Oliver.

Oliver Camplin-Warner: Hi Lucy. Thanks, Andy. Yes, I've been in-market a couple of times now as part of our extensive due diligence. And when I look at the growth opportunities moving forward, I mean, one of the key ones, Lucy, I'd call out, is around mobile penetration. When we look at mobile penetration in PNG today, it sits around the 30% mark. So we see a significant opportunity to leverage the extensive network footprint that they have rolled out. They have now some 964 sites across the country. We're giving a unique source of competitive advantage, especially in those rural areas.

The other part is we have a very extensive international business today. I operate in over 20 countries around the world. And we believe there are a number of synergies between the two businesses there as well. So we do believe there are a number of growth opportunities, which we're very excited about.

Andrew Penn: And I might just go back to Vicki and see, Vicki, if there was any additional comments to make.

Vicki Brady: No, Andy, I think you covered them off well. Just the one add I'd make is on those performance hurdles for the additional [US]\$250 million related to the earnout. For us, it would be great to hit those, because as you said, we've taken, as you would expect, a fairly conservative view of the performance of the business. If it achieves those hurdles it's a good outcome for us as well in terms of overall multiples and returns on the deal. So that's the only add I'd put Andy, so back to Nathan.

Andrew Penn: Thanks Lucy, thanks Vicki.

Nathan Burley: Our next question is from Tom Beadle from UBS.

Tom Beadle: Hi, everyone, thanks for the opportunity to ask questions. I just had a couple, please. Just maybe starting on market structure. I realise there's probably a lot of detail we can go into here. But just any detail you can give us just around, for example, how many licences are available in each of the markets? You know, is there potential for additional operators to enter these markets, whether it be with new licences or spectrum auctions, for example? And just even understanding what the penetration of mobile services are in each of your markets?

And then secondly, just around capex, how should we think about the capex requirements for Digicel? Like is there a capex to sales target that we should use as a rule of thumb, how much needs to be spent on 5G and spectrum auctions or network expansion, for example? Thanks.

Andrew Penn: Thanks very much, Tom. Again, I might ask Ollie to make a contribution here, he can talk to the market structure. I think the important point to appreciate is that PNG is obviously the biggest part of this overall portfolio. So we can sort of talk about Fiji and Nauru, Samoa and Vanuatu and Tonga, the other markets. But really, PNG I think is the main area to focus on, Ollie, and I think Ollie just referenced the market penetration rate in mobile at around 30%. And I think we have disclosed the capex to sales numbers in the materials. But Ollie, why don't I hand over to you?

Oliver Camplin-Warner: Yes, thanks, Andy. Yes, as you said, PNG accounts for the largest share of the business. That's about 80% of the overall business. In terms of market share, so Digicel Pacific is the number one in each country, apart from Fiji, where it is the second. In Nauru there was only one player, and that is Digicel Pacific.

We're very familiar with the competitors that exist today across the other markets. Vodafone is probably the key other big player. We're also aware of a potential new entrant in ATH as well in PNG. So we're very familiar off the back of our extensive due diligence on the competitive situation as it stands today, and what it looks like moving forward. But without doubt Digicel is in a very strong position, given the investment, the significant investment that it's made over recent years. And I'm very happy, Tom, to go into more detail there, because we've got quite an extensive understanding.

Andrew Penn: Yeah, and look, I think it's fair to say as well, Tom, I mean, if you go PNG, which obviously we have, and we've had our engineers there, the key dynamic is building out a viable network. And Digicel over the last couple of decades has built a very extensive network in PNG. As I think I mentioned in my comments, it's got 55% coverage in 4G already, and a higher proportion including 3G as well. That's very difficult to replicate as a competitor.

The other operators have typically been in these markets, and this is where I think Digicel's really built a very successful business, has historically been Government owned, or supported, businesses, who typically haven't been running the same sort of commercial expertise maybe, that more of a dedicated telco has. To put it in perspective in PNG, 146 of the sites you need a helicopter to get to. So it's very, very difficult to replicate that type of network infrastructure.

So they have built a very strong presence. I mentioned the capex to sales, it's a strong EBITDA margin of 54%, and capex to sales of around 15%. So you can see it's a very accretive and strong free cash flow business. But Nathan, back to you.

Nathan Burley: OK, great. Roger Samuel from Jefferies. You've got the next question. Go ahead.

Roger Samuel: The first one is just on the competitive landscape. It's interesting just to know why the number of subscribers hadn't really grown at 2.5 million? Is it the competitive pressure? Or is it because of the tourism, with the closed borders? And secondly, I just want to confirm the [US\$]610 [million] in equity-like securities. You mentioned that it's a non-controlling interest. But I just want to confirm whether that's going to be a reduction to your profit on your P&L, or, yes, it's just a balance sheet item. Thank you.

Andrew Penn: I might get Ollie to talk about the subscriber numbers and just the evolution of the market. And then maybe I'll just comment on the equity-like securities and see if there's anything that Vicki wants to add on that.

So on the equity-like securities, I mean, essentially, as I think we've got in the materials, there's two dimensions to it. That's apportioned [US]\$360 million/[US]\$250 million, I can't remember exactly how they're described, sorry, I don't have that page in front of me. But the [US]\$250 million, think about that really as a very long term, potential value opportunity that attaches to that for the Government.

But then the [US]\$360 million really sort of ranks behind our ordinary equity, and it pays a coupon, once we've got all of our equity back at a level, which obviously impacts profit a little bit, but ultimately, it's a level of a bit above our current cost of debt, and below our weighted average cost of capital. So it's sort of in that order of things.

So Vicki, anything else to add on those equity securities?

Vicki Brady: Yeah, and I'd just add, Roger was asking about – so the non-controlling interest, yes, is a balance sheet recognition into total

equity. Roger, the one thing I just would highlight to think about is, as we think about the accounting for the acquisition, we will recognise obviously the net assets of the business, there'll be some goodwill, and there's likely to be some intangibles related to the brand, and the customers. And some of those intangibles will amortise. So that's just another element as you're thinking about the flow through to the P&L. But the non-controlling interest, yes, is a balance sheet entry into total equity. So Andy, back to you.

Andrew Penn: Oliver, do you want to take the question on subscriber numbers?

Oliver Camplin-Warner: Yes. Thanks, Andy. Thanks, Roger. Yes, you're right. So there has been an impact around closure of borders, there's been a reduction in number of expats in country, fly in, fly out, some of the operations there not in full swing, given all things COVID. And then obviously, an impact on the tourism front. So that's been a primary reason there.

We are optimistic, though, with the skies hopefully opening up in the not too distant future; Fiji, some positive signs coming out of there. So hopefully we're looking forward to seeing that subscriber growth moving forward.

Andrew Penn: And I think the other thing to say, Oliver, is there's a couple of people on the call probably familiar from other companies that you follow, there's a couple of very significant resource projects in the – excuse the pun – pipeline in PNG, in particular, which will be quite material for the economy. And I think so that's one opportunity, I think, as we look forward.

And I think the other piece, which is a potential driver of growth, or will be a driver of growth, is the further electrification of PNG, as well. So I think when you look at it over a medium to longer term perspective, the opportunity for growth in subscriber numbers and ARPU is relatively significant. As Ollie said, obviously COVID has had an impact; actually surprisingly a minimal impact really, to be honest, across the markets, or modest, let me put it that way. And that's why we've taken a relatively conservative approach to the outlook, and how we value the business over the next period of time, which has driven the purchase consideration and why there's an upside opportunity or an earnout opportunity for the vendor, should the business perform in line with what the locals' teams' plans had been. But back to you, Nathan.

Nathan Burley: Thanks Andy. Our next question is from Entcho Raykovski from Credit Suisse.

Entcho Raykovski: Morning all. I've got a couple of questions. So the first one is around whether there are any exit mechanisms built in, either for Telstra or for the Federal Government, into the agreement, post year 6? I

appreciate you've undertaken not to exit prior to that period. And obviously, you've got the preferred return over those six years. But I guess interested in whether you could put your equity interest to the Federal Government, or whether you could be required to buy out the remaining equity at that point?

And secondly, just in addition to the discussion so far on capex, and any guidance around medium to long term capex for Digicel Pacific, is there a chance that the near term capex may be higher than that 15% number which you've given? I guess just trying to work out whether there's a level of investment required near term to increase the 4G coverage, particularly in PNG. Thank you.

Andrew Penn:

Thanks, Entcho. Andy. I mean, the capex decision is obviously within our control. I mean, there's some modest amount, obviously, in the transition. But no, we're were comfortable with where that's at. I mean, if strategically, it became important for us to further accelerate 4G, well then maybe that's a decision we can make. But I think the impact would be reasonably modest in the near term. So I'm not expecting a big capex surprise, if we can put it that way.

And then I think, as you would imagine, we have obviously contemplated and considered exit, and that's something that we've discussed extensively, obviously with the Government, but suffice to say, it's not our intention. We're buying this business with the intention to hold and run it. But we do have the ability to exit, and I probably can't say more than that on it, just because as you can imagine, the terms of the various different instruments, etc, are confidential.

But as I say, on capex, maybe there's a small increase in the near term. But as I say, I'm not expecting any capex surprises. I mean, I think we pretty much provisioned in what we need to do. And the business has been investing well, and as I say, they've already got 4G to 55% of the population. But Vicki, Oliver, anything I've missed there?

Vicki Brady:

No spot on, Andy. As you said, capex to sales, mid to long term 15%, sales to capex. And as you said, in the first few years, it might be slightly higher than that. But in absolute terms overall, for Telstra, obviously, that's reasonably modest amounts of capex.

Nathan Burley:

Great, thank you. Our next question comes from Ian Martin, from New Street Research. Go ahead Ian.

Ian Martin:

Good morning. In focusing more on Papua New Guinea, can you talk about what spectrum holdings there are? And are these long-term licences, like 15, 20 year licences, or annual payments? Are there any payments, substantial payments or options coming up? And also, if you could perhaps indicate what kind of regulatory

political issues are covered by the insurance?

Andrew Penn: Yes, why don't I take the second one Ian, thanks very much. And then I'll get Oliver just to talk about the spectrum holdings in Papua New Guinea in particular.

I mean, basically, the political insurance is really to protect the sorts of things that you've just referenced; so things like spectrum licences and other licences for doing business in unusual or unpredicted situations. So it insures us against that political dynamic that were there to be impact on –

Ian Martin: With termination rates as well Andy?

Andrew Penn: Sorry?

Ian Martin: Termination rates. I mean, that tends to be – or I've seen it in the past, it tends to be a kind of foreign exchange issue sometimes, the way some of the small countries might deal with termination rates.

Andrew Penn: Yeah, I'm not sure I can comment any further, Ian, on it. And obviously it's really just to protect us in the event that there is a particular type of political intervention that really impacts, and it protects our equity value in the business to cover us in relation to these markets. I'm not sure I can say any more than that. But Ollie, do you want to comment on the spectrum position?

Oliver Camplin-Warner: Yes. So just on the PNG situation, Digicel just had their licence renewed for a further 15 years. That happened in the last couple of months. Clearly, we now need to work with the regulator just on transferring that across. I've met with the regulator on three occasions in person, and had a conversation this morning as well. So we'll just work that through. But the licence has been extended for 15 years. Thanks Andy.

Nathan Burley: Thank you. Our next question comes from Nick Harris from Morgans.

Nick Harris: Thanks. Good morning, everyone. I'm just keen to understand the capital structure a little bit better, that quasi-equity. So actually question one, is it actually entitled to any dividends that come out of Digicel in the first six years? And then what happens year 7? Does it become ordinary equity, so it's entitled to the same stuff as Telstra equity? Could you just explain that again, please?

Andrew Penn: Vicki, do you want to take that?

Vicki Brady: Yes, sure. I can jump in. And then we do have Guy Wylie on the call as well, who might want to jump in and comment as well.

So Nick, just to confirm, so it's the equity-like securities. So out of that US\$610 million, it's [US]\$360 million that has discretionary distributions associated with it. And really, so that's how I would characterise it. The second component at [US]\$250 million is subordinated beneath our ordinary equity. And it really has limited rights to distribution, and it's more about sharing in the long term upside out of the business. But Guy, do you want to jump in? You've been involved in all of the detail behind this.

Guy Wylie: Yes, I can, Vicki, thanks. And hi everyone. So I think the way to think about the equity-like securities is that, as you said, Vicki, it's going to be classified as equity in our accounts. Second, and importantly, it's non-voting and non-recourse to Telstra.

It's perpetual. So there isn't a maturity date on that equity. It's deeply subordinated, and so it ranks behind our preferred return in terms of that six year dividend that Andy referenced at the start. And any payments are discretionary, and they are linked to the financial performance of Digicel. And as Vicki said, there is an upside sharing mechanism with the Government, for example, if we ever sold the business post year 6, if we meet a return, a very high return hurdle. That's all we can say on the securities, because they are private instruments. But equity, perpetual, and obviously, deeply subordinated. Thanks, Vicki.

Nick Harris: Thanks Vicki and Guy. Just two more questions for me, if I can?

Andrew Penn: Sure.

Nick Harris: Thanks So yes, just the COVID impact. I would have thought that COVID took a reasonable chunk of revenue in the last couple of years. But the revenue and EBITDA has been pretty – well, at least the EBITDA has been growing year on year. Is that a function of the vendors taking a bunch of costs out of the business? And I guess the second part of that is, should we then expect a bit of a bounce back in EBITDA once borders open?

And then my other question, just to get it off, was just around – I know this sounds a bit silly, but 5G. I know it's all about 4G there. But do you have any plans, maybe in the CBDs and things like that? Do we need to think about 5G, or for the next six years, is it still really about getting that 4G coverage up?

Andrew Penn: Yeah, look, thanks very much, Nick. I might get Oliver to add comments just in terms of the dynamics with COVID. But I think as I mentioned earlier, I mean, it's obviously had an impact, but it's been slightly more modest than you might have otherwise have intuitively thought, bearing in mind that PNG is the biggest, overwhelmingly, the majority of all of this, so obviously less affected by tourism as such, but certainly affected by some degree

of fly in, fly out workers. But Ollie can talk on that point.

But the business has performed pretty well, and held up well during COVID. And as I say, I think that there is the opportunity for the growth to be slightly stronger in the future. It's a bit hard to say, in a sense, because it's still hard to know where we are at in the whole COVID journey. I mean, I like to be optimistic and think things are going to get better next year, and I think Fiji, as an example, has announced it's opening up its borders, I think quite soon. So that's pretty positive.

I think on 5G, look, it's pretty early days. We are really focusing on continuing to extend the 4G coverage. But 5G will become relevant over the longer term as well. As much as anything else, as is a bit the case in Australia, is that 5G, obviously, is a more efficient technology than 4G. So from a capital cost perspective, it could improve your overall capital efficiency, from the point of view of the cost per gigabit of data over the network is lower than 4G. But until really data volumes grow very materially in these markets, that's not so much an issue.

But Oliver, do you want to talk a bit more about the COVID dynamics across the markets?

Oliver Camplin-Warner: Yes, probably not a lot to add, Andy, there. I think we've covered it quite a bit. They have managed the business very well through what has been a tough period. But yes, not anything else I'd add on the COVID front.

In terms of 4G, 5G, I mean, they're still heavily reliant on 2G and 3G. So they have about 55% population coverage on 4G today. And so they're still rolling that out across the country. We've had a number of conversations with them on 5G, and whether or not there are any use cases in their metro areas. But that's not on the near term strategy. So it's something we'll keep across, should the deal complete.

Nick Harris: Thanks very much.

Nathan Burley: Our next question will be our last from the analysts, so we will then go to media. So I would just like any media on the call to press star one, if they'd like to register a question. Our next question is from Brian Han from Morningstar. Go ahead Brian.

Brian Han: Thanks. I may have missed the answer to one of the previous questions, but can you please talk about the key drivers of the margin increase for Digicel in recent years?

And secondly, in terms of the on the ground running of Digicel after the deal closes, I know Oliver will be in charge there. But will there

be many senior executives from the other three arms of Telstra who will be assigned there? And will Mr O'Brien still be actively involved in the day to day management? Thanks.

Andrew Penn:

Thanks very much, Brian. Why don't I make some comments, and then see if Oliver wants to add anything. I think in terms of what's really driven the strong performance of the business, I think if you look at the Digicel businesses globally, they've been incredibly well managed. I think they've driven strong growth in subscribers and ARPU's, and managed costs very efficiently. And I think the scale benefit of that has led to pretty healthy margins. As I mentioned, the EBITDA margin is about 54%. So it's a very well-run business.

In terms of on the ground, there's about 1,700 employees across the Digicel Group in the Pacific, obviously, overwhelmingly, they're obviously all based in markets, a very, very strong team. And, as Oliver said, both he and I and our colleagues have been in Papua New Guinea, met the team. It's mainly a local team. There are a couple of expats in senior positions, but they're people that exist within and live within the markets for a good number of years.

We don't propose to change that. And we don't propose to, and don't feel we need to, allocate a large number of senior executives from Telstra into the business. It's already very well run, and were running it relatively independently through the Board, coming up to Oliver. But Oliver, do you want to add any other comments to that?

Oliver Camplin-Warner:

Yeah, thanks Andy. I'd just add that as part of Telstra International today, as I said earlier, we operate in over 20 countries around the world. We're very used to operating in complex environments, with complex Governments and different regulatory setups. So this is not new to us. We're very used to operating in different countries.

In terms of the team, as Andy said, we've been very impressed with the leadership team that is in place today. And we'll make sure that we retain the key individuals moving forward.

Just on PNG, I mean, when you visit in country, it's amazing. They are literally, there's a Digicel umbrella on every single street corner. The distribution that they have, the sales channels that they have in place, they really are second to none. So we'll be looking to protect that, protect the leaders that are in place, but then bring the Telstra International governance just to manage it and operate it moving forward.

Andrew Penn:

And sorry, I didn't comment on Denis O'Brien. So Denis, it's the intention that Denis will stay on the Board for the first couple of years or so, to help us navigate the transition.

Nathan Burley:

Thanks, Andy. Thanks, Ollie. I'll now hand over to my colleague

Nicole McKechnie, who will manage the media Q&A.

Media Q&A

Nicole McKechnie: Thanks very much, Nathan, and welcome everyone. I think at this stage we have one call, one media call. And can I just remind the media if they have any questions for the team, please press star one. But the first one is from Lucas Baird from the AFR. Go ahead, Lucas.

Lucas Baird: Hey guys. Thanks for taking the question. I was just wondering about that extra [US]\$250 million that could be kicked in if certain targets are met, I was just wondering what are the targets that Digicel has to meet to get that? And will the Government or Telstra be funding that increase?

And then just a second one on potential exit strategies to Telstra. From what I see, all the timeline horizons seem to be like six years in the material on the ASX at the moment. So is that the point that you will be looking at trying to exit Digicel?

Andrew Penn: Lucas, Andy. Look, you should not interpret the six years as any signal of an intention to exit. We're not entering this with a view to exit, we're entering this with a view to running this business as a successful business over the longer term. The point of the six years though, is that we wanted to make sure that we basically had effectively a clear line of sight to the payback of our equity of [US]\$270 million. And that's effectively what happens at that point. So we get to that point. But you shouldn't interpret that as being a signal for an intention to exit at that point.

In relation to the hurdles, and/or the earnout, essentially, I think, because we were talking a little bit earlier, I'm not sure if you were on the call, but when you do an acquisition like that, there's a position that the vendor looks at the business and has a point of view – sorry, the acquirer, and then of course, the vendor has a point of view about the business. And the vendor's point of view is obviously based on their history and performance. We're taking a more conservative point of view, particularly against the background of COVID and the uncertainty that that creates, and the difference between the two is really a function of those perspectives.

And as we said earlier, if the business performs in terms of revenue as an example, above what's in our model, and closer towards the vendor's model, or where the vendor's at, then that would trigger the earnout payment. And we would be happy with that, because actually, it would mean the business is valued more. And I think I'm right in saying that actually on a multiple basis, we actually would be acquiring the business at a slightly lower multiple than going in, so that's good. And then in terms of how that's funded, the split is

80/20 EFA to Telstra, so we would pay 20% of the extra earnout payment, and then the EFA would fund 80% of it.

Lucas Baird: Thanks.

Nicole McKechnie: Thanks, Lucas. Next up we've got Dave Swan from the Australian. Hi, Dave.

David Swan: Hey guys, thanks for the time as always. Just a couple of quick questions for me. Obviously the deal's been under discussions for the past few months, and seems to have been quite a lengthy process as you'd expect it to be. Could I just have some colour in terms of just those discussions over recent weeks and months, and just some colour about I suppose any detail that can be shared as to getting this over the line? And anything you can say just about the politics too, and just overarching, what this means from a geopolitical standpoint to the region?

Andrew Penn: Thanks Dave. I'm not sure I can share too much colour on the discussions. I mean, I don't want to describe it is a complex deal, it's just that it's a deal with a number of stakeholders involved, when you think about it, it's multijurisdictional. On the one hand, obviously, it's with doing due diligence in an environment where we're dealing with restrictions as a consequence of COVID. So that sort of made that a little bit, took a little bit more time. We've done very extensive due diligence, including on the ground due diligence; I think you heard us say previously, I've been in-market, and my colleagues have been in-market. We've had network teams up there, we've had independent consultants, we've done a lot of work there.

And then, as you can see, the funding and the support package from the Government's got three key elements to it; the senior debt, and then the two types of equity [like] securities, and then the political insurance risk. So there's a lot in all of that. And so there's a lot of stuff to work through. And I think that's probably all I can say, in relation to the discussions.

Or the question about geopolitics, and I'm not probably an expert there. But I mean, the only thing I would say, look, we've been doing business in the Asia Pacific region and the Pacific region for many, many decades. And we operate in more than 20 markets around the world, and we deal with lots of different regulatory regimes. And I think that we are well positioned to navigate our way through these markets as well. And it's a very attractive business, it's performing very, very well. And I think obviously the region has very strong ties with Australia. I've spoken to each of the Prime Ministers in each of these markets, and they're very well disposed to Telstra's involvement. So that's probably as much as I could say, Dave.

David Swan: Thanks.

Nicole McKechnie: Thanks David. So next on we've got Simon Dux from Comms Day. Hi, Simon.

Simon Dux: Hi there. Thanks very much for the briefing so far. I've just got a question regarding the fact that Huawei is a strategic vendor and partner of Digicel in Asia Pac. ZTE is a global strategic partner of Digicel. What operational, regulatory and procurement issues does this present for Telstra going forward?

Andrew Penn: Thanks Simon. Well, I don't think it presents any regulatory issues going forward. There's no restrictions in relation to the use of radio access networks vendors. And also just to point out, even in Australia, obviously where there is, that's in relation to 5G, not 3G or 4G.

One of the things that we will obviously be working on if and when – well, I'm not suggesting it's not going to – but when we complete, because we've obviously got to go through the regulatory process across in each of the markets, and I don't anticipate any issues there, but it does take some time, it will take three to six months, I think, we'll obviously work with the local team on a longer term network plan, taking into account our partnerships as well.

Because we've got strategic partnerships as well, and some of the considerations from our perspective around the optimal network design and operation of the networks in the region. So we'll obviously take that into account at that time. But there's no issues in the short to near term in relation to that. I think it's really just a function of us determining what the right long term network strategy is.

Nicole McKechnie: OK, thanks, Simon. We have a call – actually, before I go to this call, just a reminder for media, if you have any questions, it's star one to register. We have a question from Josh Taylor from the Guardian.

Josh Taylor: Hi, thanks for your time. Just a quick question regarding Digicel. So I understand that Digicel is incorporated in Bermuda. Is there any concern from Telstra about being involved in the transfer of large sums of taxpayer dollars to a country that is essentially a tax haven?

Andrew Penn: Actually, Guy, who's on the line, can talk about the exact mechanics of the completion of the deal, but as far as we're concerned, we are – I mean, Digicel is essentially a business which operates in a number of island markets around the world, either located in the Caribbean, or in the Pacific, and the Caribbean is, if you like, the main business and also the holding company, and operates I think in something like 22, 23 markets in the Caribbean. So it's not, I think,

necessarily unusual therefore that that's where the holding company is. But Guy, I don't know if you have any comment just in terms of how the transaction completion mechanics work?

Guy Wylie: Yeah, thanks, Andy. Look, no comment on that. We don't comment in terms of where funds flow goes. But obviously, we're going to own and operate this business out of Australia. So that's all to say on that.

Nicole McKechnie: OK, Thanks, Josh. Next up, we've got Stuart Condie from the Wall Street Journal.

Stuart Condie: Hi, thanks for your time. I guess this is a follow up from a previous question. When did the Government initially approach Telstra was a request for advice? And how long did it take for those talks to turn to Telstra taking an ownership interest? And also given the Pacific Step-up Program, was the Government's request for advice confined solely to Digicel Pacific? Were there any other assets or areas of discussion? Thank you.

Andrew Penn: I think in relation to the second one, I think I'd like to say that no, they approached us for advice in relation to Digicel, and that's what the conversations have been contained to, and they haven't gone further than that. And I'm just trying to think exactly when we were initially approached, everything sort of – I've lost a bit of perspective of time in the context of COVID, having been in lockdown for such a long period of time. I mean, I think we would have been working on this for the last, maybe 10 months or so, something in that order.

And as I say, initially, it was in relation to providing strategic advice and then ultimately that led us to thinking about potential acquisition in partnership with Government with those various different arrangements, the support package, the funding package, the insurance package, all of those protections. So I can't remember exactly when the talks changed, and I don't know that they changed overnight. But obviously, we've become more familiar with the asset over the period of time we've been discussing it with the Government.

Stuart Condie: OK, thanks for that.

Nicole McKechnie: Thanks, Stuart. That appears to be our last media question at this point in time. Andy, any last comments from you before we wrap?

Andrew Penn: No, look, I don't think so. Thank you, everybody, for dialling in. It's obviously a very significant transaction, and as I mentioned in my introductory comments, consistent with our ambition to drive profitable growth and value from the strategic significance of our international networks. And we've been doing business in Asia and

the Pacific region for many decades, including in PNG. So I think we're very excited by this opportunity. But thank you everybody for their interest and for dialling in today.

Nicole McKechnie: Thanks, Andy. Thanks, everyone.