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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Half Year Results Presentation, 16 February 2023 – Transcript

In accordance with the Listing Rules, I attach a copy of the transcript from the analyst and media briefings held on Thursday 16 February 2023 in relation to Telstra Group Limited's results for the half-year ended 31 December 2022, for release to the market.

The material is also provided for the information of Telstra Corporation Limited noteholders.

Authorised for lodgement by:

Sue Laver
Company Secretary

Introduction

Vicki Brady: Good morning, and welcome to Telstra's results announcement for the half year ended 31 December 2022, and my first results as CEO.

I'm joining today from the lands of the Kulin Nation. On behalf of Telstra, I would like to acknowledge and pay my respects to the traditional custodians of country throughout Australia, and recognise their continued connection to land, waters and culture. We pay our respects to their Elders past, present and emerging.

For those of you that are regulars at our results presentation, we are taking a slightly different approach to previous years. I will make some brief comments on our key highlights. Michael will then take you through the financials in detail, after which I will summarise our progress against T25, and reinforce our FY23 key focus areas. We will then take questions from analysts, investors and media.

Before I hand to Michael, you will see that our financials for the half show strong and continued growth, with positive momentum across our key indicators. Importantly, we saw growth in the first half in both our reported and underlying results. This momentum is also reflected in the progress we have made in the first six months of delivery against our T25 strategy. I will speak to this in more detail when I take you through our T25 achievements.

Focusing on the key highlights. Total income was up 6.4%, and EBITDA increased 11.4%, driven by momentum from our mobiles business, and support from the acquisition of Digicel Pacific. Excluding Digicel, underlying EBITDA increased 6.8%. This flowed through to a 25.7% increase in net profit after tax. Reported earnings per share increased 27.1%. It was also pleasing that our episode NPS increased by four points.

We are a growing business with a lot to be excited about in our future, and our T25 strategy provides a clear roadmap to get us there. Our core mobiles business continues to be central to this growth, and perform very strongly, endorsing our strategy to lead the industry on network experience, and bold decisions on plan simplification.

I do want to be clear upfront that while our momentum is good, we are just at the start of our return to growth. We are also a multi-faceted business, and there are specific elements of the business where we cannot be complacent, and others that need to see improvement. Cost out is an area where we remain disciplined, particularly considering the external economic environment. We are also very focused on addressing the disruption in our Enterprise business, which continues to prove challenging. We will talk to these challenges in a bit more detail through the presentation. Overall, we remain committed to achieving our T25 ambitions, including growth in underlying EBITDA and earnings per share.

On the back of our continued growth, the Board resolved to pay a fully franked interim dividend of 8.5 cents per share, representing a 6.3% increase

on the prior corresponding period, and in line with the second half of last financial year. The interim dividend is consistent with our policy to maximise the fully franked dividend, and seek to grow it over time. I will now hand over to Michael to go through the numbers in detail.

Presentation from Michael Ackland

Michael Ackland: Thanks Vicki. It is great to be presenting Telstra's results for the first time. While our momentum is good, we're just at the start of our return to growth. I'll step you through the high-level results before getting into some detail.

Starting with our income statement on slide 6, which clearly demonstrates our growth. First half '23 income was \$11.6 billion, up 6.4%. EBITDA was \$3.9 billion, up 11.4% from ongoing mobile-led organic growth, and M&A including our acquisition of Digicel Pacific. EBIT was \$1.6 billion, up 25.4%. Net financing costs increased 5.9%, reflecting higher debt levels following the acquisition of Digicel Pacific, and higher borrowing costs given exposure to floating rates.

Tax increased 40% on higher profit before tax, and one-offs associated with M&A in the first half of '22. We expect the effective tax rate to be around 30% for financial year '23.

EPS was up 27% to 7.5 cents, reflecting higher earnings, lower average shares on issue following our buyback in FY22, as well as higher minority interests following the 49% sale of Amplitel last financial year.

Looking at product performance on slide 7. We saw strong growth in Mobile and International, partly offset by fixed Enterprise decline. Mobile benefited from growth in service revenue, partly due to higher international roaming, while International growth mostly came from the Digicel Pacific acquisition.

I will now step you through our key products, starting with Mobile on slide 8. In Mobile, we achieved continued growth in revenue, EBITDA and SIOs from the successful execution of our strategy. On the top left, you can see mobile service revenue up 9.3%. All segments and sub-products including MBB, IoT and wholesale grew. Growth was supported by international roaming lifting by around \$100 million, to approximately 70% of pre-COVID levels, and a \$42 million one-off in prepaid from product migration.

Excluding these, service revenue grew 5.3%, driven by volume and value, in line with our mid-single digit CAGR ambition. In postpaid handheld, we added net 68,000 SIOs, while prepaid handheld unique users increased 137,000 SIOs.

We estimate the cyber incident at Optus also impacted our first half '23 net adds, in the order of positive low to mid tens of thousands, split across C&SB, Enterprise, postpaid and prepaid, and wholesale. Port-ins from Optus have now largely normalised.

Postpaid ARPU, shown on the bottom left hand chart, grew 4.5%. This was

from higher roaming, and around three and a half months of benefit from consumer and small business price increases in line with CPI implemented in the half. Partly offsetting this was an Enterprise COVID related messaging benefit in the prior corresponding period.

Prepaid also achieved exceptional performance supported by incoming travellers, and ARPU growth through increased data usage, and migration to new simplified plans.

In fixed C&SB, we delivered on growing EBITDA in line with our commitment. NBN reseller margin was up to 7% from 4% in the prior corresponding period, with 3.7% ARPU growth achieved from price rises. We also saw continued evolution of plan mix as customers choose the plans that suit them.

We continue to migrate our customers to our new digital stack, which is delivering better customer outcomes. First half '23 episode NPS improved 19 points on sales and activation, with new stack 24 points above legacy. Proactive fault identification, resolution, and better agent tools to resolve queries, have delivered a PCP improvement of over six points to [episode] NPS. On-net fixed wireless also continues to scale, while in SMB and mid-market we've gained traction in NBN reseller.

However, there remain challenges. We are focused on evolving our customer propositions and our multi-brand strategy to support stabilising SIOs and longer term sustainable growth. Going forward, we are targeting greater than 8% NBN reseller margins in FY23, and mid-teens in FY25. While we continue to drive efficiencies, achieving these ambitious targets sustainably will require us to stabilise volume performance.

We're also focused on reducing cost, and improving on-net losses through the rationalisation of our legacy voice, ADSL, and transmission networks, as well as continuing to optimise field service costs, as the remaining customer numbers decline.

Turning to fixed Enterprise on slide 10, which is made up of data and connectivity, and network applications and services. DAC revenue declined 14.4% in line with the previous half, as it remained impacted by ongoing [disruption] from technology change and competition. We've been re-pricing our plans and proactively targeting customers at risk of churn, resulting in renewals at lower rates and ARPU compression. Going forward we'll continue simplifying products and IT platforms, targeting improved customer experience and lower cost to connect and serve through automation.

Our focus is on retention, and we expect further ARPU declines as we proactively target the base, as well as customers who have previously churned. We have also implemented a new customer care approach for high risk mid-market and business customers. This has resulted in the improvement in Telstra Fibre SIO trajectory, including lower churn and positive net adds late in the second quarter.

In NAS, revenue grew 2%, reflecting growth from cloud, security, and the Viasat contract, and acquisitions, offset by headwinds in calling products due to fixed legacy and lower product exits, and lower usage. Faster decline in legacy calling is the reason we're below our mid-single digit revenue and growth ambition. With revenue recognition linked to milestone timing, the business remains seasonal. Our focus is on continuing to build deep strategic relationships with hyperscalers, and extending our industry expertise with specific partners, applications and software in our go to market strategy.

Overall, [while] our ambition is to grow total domestic enterprise across T25, including mobile, this will be a significant challenge in FY23, given the level of first half decline. We are focused on five areas; ongoing momentum in mobility; strong second half NAS performance consistent with normal seasonality; limiting the level of calling decline, retaining fibre SIOs; and managing cost.

Turning to International on slide 11. Following the acquisition of Digicel Pacific, International now represents around 10% of EBITDA. International excluding Digicel Pacific grew 9.3% in Australian dollars, or 7% in constant currency. Pleasingly, Digicel Pacific is performing well, with core mobile and SIO growth in all markets. Revenue and EBITDA are up 7% and 9% respectively, versus pro forma at constant currency.

Note that following the implementation of our corporate restructure from the second half of '23, International reporting will include internal revenue with Group eliminations increasing in an equivalent amount. The restructure will also create [other] additional internal revenue and costs.

Turning to infrastructure on slide 12. While reported revenue and EBITDAaL grew 3.6% and 2.7% respectively, core excess growth for ducts fibre and network sites was above this level. NBN commercial works declined in line with contract expiry, partly offset by an increase in legacy network disposals.

Core access grew from both internal and NBN recurring revenue growth. The latter grew 4.8% supported by CPI indexing, and a further 7.3% price increase was applied from 1 January 2023.

The EBITDAaL result also reflected incremental investments in strategic infrastructure projects, power and maintenance costs. As we think about InfraCo Fixed, it's important to understand there are a range of asset classes, each with different investment models: ducts represents most of the earnings and the value. It is very high quality, low capex with difficult to replace assets, and long term predictable earnings; long haul fibre we're investing in, and we view it as a growth business; access fibre is about leveraging the existing footprint; and finally, Fixed network sites provide opportunities, especially in large [regional and] metro sites. Outside of these areas, we're giving significant focus to how we reduce cost. Vicki will talk further about InfraCo Fixed.

Turning to our operating expenses, which you can see on slide 13. Total operating expenses increased 4.2%. Excluding one-offs, restructuring and

M&A transaction costs, underlying cost increased 6.8%. We've updated the split of our underlying costs, including more in Fixed costs core. Telstra Health and recent M&A activity, including Digicel Pacific, are included in Fixed costs – other. A bridge from our prior disclosure is shown in the detailed financials included in the presentation.

Our productivity program is measured as the absolute reduction in Fixed costs core. Fixed costs core increased \$110 million, as productivity was offset by: wage and non-labour cost inflation on the first half '22 cost base of \$3.2 billion; around \$70 million increase from insourcing of retail stores, and onshoring of contact centres; \$22 million in higher energy costs, which was neutralised at EBITDA from power purchase agreements; around \$20 million of higher travel costs; and \$15 million in foreign exchange headwinds and International. The net increase in fixed costs core was broadly as expected, and we continue to expect modest reduction in FY23. A reduction in our Q2 costs compared to Q1 gives us confidence in achieving this. However, we expect inflationary pressure in the second half to continue.

We are committed to cost reduction, and to our previously stated net reduction ambition of \$500 million by FY25. This ambition is significantly bolder than when we set it. Achieving this ambition is in part dependent on the external environment, which has changed significantly since it was first announced. I reiterate that we are absolutely committed to achieving our T25 EBITDA and EPS growth ambitions. I want to be very clear that we will not take our foot off the pedal on ensuring delivery of cost out and operational efficiencies.

This includes off the back of: B2B and B2C digitisation; getting off legacy systems and reducing legacy IT costs; delivering cost out across all customer episodes and value chains; and through decommissioning legacy infrastructure. Beyond fixed costs, we're very focused on efficiency in all other areas of our spend, including sales costs, capex, leases, including property and finance costs.

Slide 14 is an update on the implications of inflation, including mitigations we have put in place. Our sales costs, especially in the other category, are seeing some inflationary pressure, however these costs are largely passed through. Within fixed costs, the biggest bucket is labour. We have seen absolute cost growth through insourcing of stores and onshoring, with wage inflation in line with expectations.

On energy, costs are expected to be broadly flat after adjusting for power purchase agreements in FY23 and FY24. We continue to expect gross energy costs to increase by around \$50 million in FY23, which is offset at an EBITDA level by power purchase agreements, and then to be broadly flat in FY24, with the large majority of usage contracted.

Service contracts and agreements are areas we're seeing inflationary pressure, including professional and corporate services, IT, field, fuel and transport. We have mitigated cost growth through existing contracts, putting services out to tender, working with suppliers to adjust the way we do business, and reviewing our licensing requirements.

Importantly, we also have revenue levers, and continue to make changes to prices across our portfolio. For example in mobile: around 65% of postpaid mobile handheld customers are on C&SB plans, with an option to review prices annually against CPI in July; for some Enterprise postpaid mobile handheld customers, prices increased around \$3 per month taking effect from December; this calendar year, we have communicated further base management in Belong and mobile broadband.

In addition, our NBN recurring revenues of around \$1 billion per annum are indexed to CPI.

Turning to free cash flow on slide 15. Our first half '23 free cash flow was \$1 billion on a guidance basis. This is consistent with common first half/second half seasonality in our cash flow. The decline versus the prior corresponding period was principally due to working capital movement. Working capital increased \$451 million in the first half from: increased inventory on normal seasonality, the impact of insourcing our stores, and some normalisation given prior period supply constraints; and payables movement which was impacted by timing and lower accruals.

Pleasingly, we continue to see year-on-year improvement in our receivables metrics, including day sales outstanding, aged debt, and bad debt.

The working capital movement in the first half of '23 was largely timing related, and as implied by our guidance, we expect to reverse the working capital build up in the second half. The capex increase in the first half of '23 was associated with Digicel Pacific and strategic capex. M&A in the period included outflow of A\$2.4 billion for the Digicel Pacific acquisition and earn out, funded by \$1.1 billion of non-recourse debt [from], and \$0.9 billion of equity-like securities issued to, Export Finance Australia, and \$0.4 billion of Telstra equity.

Turning to our capital position on slide 16. In the first half of '23, net debt increased by \$2.2 billion from 30 June 2022, largely due to funding the Digicel Pacific acquisition, and normal seasonality of free cash flow. We remain within our comfort ranges for all credit metrics, with debt servicing at 1.9 times. Underlying ROIC improved to 7.5%, to just above our cost of capital, illustrating we remain in recovery mode.

Now turning to FY23 guidance, which can be seen on slide 17. You can see the ranges, along with the assumptions and the conditions on which we have provided them. There are no changes, except that we now expect to be at the bottom end of income guidance for two main reasons. Firstly, mobile hardware revenue, which despite growing 12% on higher volumes, and increased accessories and wearable sales, was below expectations, with customers continuing to hold handsets for longer, and more purchasing from external parties. Secondly, fixed revenue across C&SB and Enterprise being below expectations.

Finally, to summarise: our business continues to deliver high quality mobile-

led organic growth; we are well placed in the current environment; and we remain disciplined and focused on creating value. Finally, I'd like to express my thanks to the Telstra team for their ongoing passion to deliver value for customers, the community and our shareholders. I'll now hand back to Vicki.

Presentation from Vicki Brady

Vicki Brady: Thank you, Michael. So as you can see from that detailed breakdown, overall, we have positive momentum, driven by continued growth in mobiles, with some challenges in Fixed. These challenges are especially important given the current economic uncertainty, with inflation particularly proving challenging for most businesses.

Michael talked you through the impacts and our responses in detail. However, I wanted to reinforce the point that while inflation is impacting cost, we continue to have cost mitigants and revenue levers, and remain committed to our FY25 \$500 million cost out, underlying EBITDA, and earnings per share ambitions.

I also understand the current economic climate creates challenges for our customers. The changes we have made in recent years to remove lock-in contracts and move to a multi-brand strategy, mean we can continue to provide customers with flexibility and options to ensure they can choose plans they can afford. This is very much front of mind for me.

Turning now to our T25 strategy. T25 is a strategy that leverages the foundation and capabilities we have built over the last few years. I am absolutely confident it is the right strategy. But naturally, it may be necessary to make adjustments to it at times to deliver customer experience improvements, new growth opportunities, and fundamentally shift the way Australians feel about us. It has the four pillars shown on the slide: an exceptional customer experience, leading network and technology solutions, sustained growth and value, and the place you want to work.

T25 is about growing sustainably by doing the right thing by our customers, our people, our shareholders, and by Australia. It's an ambitious strategy built around our customers, and recognises that providing them great connectivity is only half the customer experience equation. We have to make doing business with us an exceptional experience too.

We took great steps forward on this through T22, including bringing calls back to Australia, and our stores in-house, and continuing this work is my number one priority. I know that if we get the customer experience right, then we will be well on our way to delivering our growth and reputation measures.

A large part of this is delivering on what we say we will deliver for customers; getting it done right first time. I am pleased with our progress on customer complaint numbers, which have dropped to record lows, and our episode NPS results, which have seen historic highs.

In a digital world, it also means doing what we can to help protect our

customers against scams and cybercrime. We have led the industry on blocking scams and malicious contact reaching our customers. We have also taken steps to improve the way we collect and retain customer data. The job here is never done, and my goal is to ensure we remain a leader in cybersecurity, data collection and retention improvements.

Despite our good progress on customer experience, there is still more we need to do. Our work to digitise, simplify and upgrade our legacy systems is transforming our customer service, but has been disruptive for our people and customers, so it is critical we finish the job as quickly as possible. We must accelerate the move away from our legacy systems, as it will help us deliver on our customer experience ambitions, along with making us a more efficient business.

When it comes to future areas of growth, connectivity is the starting point. It's why leading on networks and technology solutions is one of our strategic pillars. Our opportunity is to leverage these capabilities alongside our customer relationships, and our strategic partnerships, with global and local players to deliver technology solutions in key industry verticals. Our joint venture with Quantum announced during the half will not only help us provide advanced data and AI services to key verticals, it will also help contribute to our own digital ambitions under T25 to deliver improved products and experiences to our customers.

We are also already beginning to see a new wave of industry digitisation, enabled by connected technologies, particularly in sectors like healthcare and agriculture. Telstra Health is a good example. It continues to grow, and is on track to achieve its ambition of being a \$500 million revenue business by FY25.

Turning now to our early progress on T25 by strategic pillar. You can see on the slide the progress we have made in the first six months of T25, and I will call out some of the key achievements. As I said, we continue to make good progress on the customer experience pillar. Episode NPS improved four points, customer complaints reduced by more than one third, and Telstra Plus members grew to 4.8 million.

Against network leadership we are on track to meet all our commitments by FY25. We have the largest 5G network, our 5G population coverage has reached over 81%, and is on track for our FY23 target of 85%. We are currently leading the majority of key mobile and fixed network surveys for coverage and speed. In the half, our Australian mobile network was again awarded best in test by Umlaut, and we again led on Ookla's Speedtest from July to December 2022.

Against the growth and value pillar, in the first half we have delivered growth in underlying EBITDA and EPS. With underlying ROIC at 7.5%, we are on track to achieve around 8% in FY23.

Against the place you want to work pillar, our employee engagement score was 79. This result ranks us near the top companies globally, however, below

our 90th percentile target. We are focused on continuing to improve employee engagement.

This positive progress is reflected on our T25 scorecard, which demonstrates we are on track to deliver the majority of our T25 metrics. Through T22 we held ourselves to account on our original targets, and we will continue to do that through T25. There are a number of metrics we have rated as amber where work has commenced but early progress is below where we want it to be to achieve the FY25 target. We remain committed to accelerating and delivering on these targets.

On our inter-city fibre project, construction has commenced, and we are seeing strong interest from hyperscalers, other operators, satellite providers, and national enterprises. You may recall we announced a change to the original scope of the project last year, to stage our rollout to focus on the highest priority routes, which explains its rating on the scorecard. This nation building project will provide a critical injection of capacity into key inter-city routes, and is the only national project of its type that is funded and where construction has commenced.

Turning now to our key focus areas for FY23. My number one strategic priority is improving the customer experience. This is paramount, and a key enabler of our growth ambitions. The accelerated move away from our legacy systems I mentioned earlier will support us achieving this goal.

I also wanted to reinforce the specific areas we see as key to maintaining our financial momentum and delivering sustainable growth for shareholders. As I do, I will also comment briefly on relevant industry matters.

Our first focus area is mobile and delivering continued profitable growth. First half mobiles performance was strong, and we are focused on continued sustainable revenue growth, underpinned by our multi-brand strategy, network leadership, and delivering new network experiences to our customers. Part of this is also looking at innovative ways to improve the experiences we provide our customers, responding to the ever-increasing demand for data, and managing our spectrum assets efficiently.

To that end, the decision by the ACCC not to grant authorisation for our landmark MOCN agreement with TPG Telecom was disappointing. The agreement would provide an innovative solution, delivering better connectivity for our customers, as well as greater coverage for TPG, things I know regional customers really value. The appeal process is underway, with a result expected to be handed down in June this year.

The second focus area is improving overall fixed C&SB performance. This includes further increases in off-net margins, and improving the experience for our C&SB copper customers. We have spoken about our focus on cost, and obviously NBN wholesale prices is a large part of this in C&SB. The recently submitted NBN SAU makes some steps in the right direction, however, if it was to be accepted in its current form, it would leave us with little choice but to take immediate steps in response. In line with our previous

commentary, this could mean price increases on our most popular plans. We will continue to advocate for better service standards and sustainable wholesale pricing on behalf of our customers through the ACCC process.

The third focus area is improving fixed Enterprise performance and profitability. This includes delivering scaled propositions to meet Enterprise customer needs, and winning in fibre, whilst driving further growth in NAS. Michael outlined where the challenges and the opportunities lie for us in fixed Enterprise, so I won't repeat that.

Lastly, before I conclude, let me update you on where we were at with InfraCo. Following shareholder approval for our restructure in October, we completed the separation and transfer of assets into subsidiary groups on 1 January. This is an important milestone, and allows us to focus our attention on the commercial and operating aspects of ensuring we are maximising long term value in the InfraCo business for Telstra shareholders.

I have spoken before about the benefits and opportunities that have been identified across InfraCo, through operating it as a standalone business. In the short term our focus is on: increasing utilisation and efficiency of the InfraCo asset suite; ensuring that the ongoing commercial arrangements between InfraCo and Telstra support growth across both businesses; and seeking areas to grow through investment and partnership. Our Viasat and inter-city fibre projects are recent examples of this.

While we believe there are potential value realisation options, we will be measured and deliberate as we consider them through 2023, and ensure that in any future decisions we may make, we capture and retain long term value for shareholders from these unique and valuable assets.

With that, let me close out my first results presentation as the CEO of Telstra. I am excited to be leading this highly capable team, and proud that in the half, we achieved strong growth, successfully transitioned to our T25 strategy, made good early progress on that strategy, and finalised our legal restructure. Our outlook for 2023 is strong. This year, we will gain growth momentum and continue to lift our customer experience through T25.

I would like to close by acknowledging the progress we have made is due to the combined efforts of the many dedicated Telstra employees. Thank you for all that you do, and all that you will do this year, to serve our customers and each other. Together, we will create an even better Telstra for our people, for our customers, for our shareholders and for our communities. I will now hand over to Nathan Burley, Head of Investor Relations, to take us through Q&A.

Investors and Analysts Q&A

Nathan Burley: Thank you, Vicki. So we'll now start with some questions and answers first from the investors and analysts, after which we'll have a time for media to ask questions.

Our first question today comes from Eric Choi from Barrenjoey. Go ahead,

Eric.

Eric Choi:

Thanks, Nathan. And congrats Vicki and Michael, on your first results as CEO and CFO. I've got a few. My first one would be, you've reconfirmed the \$500 million long term cost out target, which is pretty admirable given FX and inflation pressures. My question is, if you were to achieve that \$500 million stretch target, are we actually in a better spot to achieve T25 than before? Just given obviously, this July, you're going to be putting up prices by CPI, and those NBN payments are going to be going up by CPI, and obviously, CPI is at seven now versus the three when you first set those T25 targets.

The second one is just on mobile net adds. I guess still a pretty good net add result from you this half. But we didn't see it accelerate, despite obviously tailwinds from the Optus data breach. And I reckon you can probably surmise from the industry commentary that TPG and Optus net adds won't accelerate this half, either. So I'm just wondering if you've got a view on what's driving that market plateauing or slowdown in net adds, and if we can take anything from the US, because as you would know, as they put up prices, you've seen consumer net adds slow as well. So I wonder if those price increases are starting to have an impact on the market?

And then just the third one; I've got to ask on InfraCo. I think previously we've centred our questions to you around whether you would do a transaction, and when. This time, I wanted to ask, how much? And my thinking is, most of us, I guess, value InfraCo Fixed probably \$15 billion plus. And if you guys sold, let's say a little bit less than half of that, you'd get \$7 to \$8 billion or more of proceeds. And I'm just wondering, besides buybacks, are there enough options to deploy that capital? And if not, does that influence how big of a transaction you'd want to do? Thanks a lot.

Vicki Brady:

Okay, thanks, Eric. And good to have you on first with your three questions. I know you dial in early to get in first. So I might make comments on each of them, and then I'll go to Michael, because I'm sure he'll also want to add some perspective. So why don't I start at the top?

So yes, we have retained our ambition on the \$500 million net cost out target under T25. We're very much aware that, as Michael spoke to, when we first set that target, inflation was at a very different level. So it is a much bolder target now. But I'll be perfectly honest, we did not think in this environment, that taking the foot off cost out was the right move. So we are absolutely focused on that ambition. And I think Michael covered in a bit of detail those areas that are going to be critical to us achieving that cost out.

And I know, as you said, there's a bunch of assumptions that are different from when we started T25. And to be honest, there's lots of forecasts, I know you will be close to them, I keep reading them as well, in what will play out over '24 and '25. So there are a lot of things moving in the external environment right now. And so our focus is absolutely on delivering and executing our strategy, putting ourselves in the best possible place, and of course, being in a position to make sure we can navigate through that external

environment in the best possible way.

So look, as I said, committed to the cost out, I know it's bolder. And we will focus on those areas that we've spoken out over many times before. So the acceleration of legacy is critical so we can get those legacy IT costs out. Getting then that efficiency across our customer episodes is critical, and that automation, which improves experience, but also makes us more efficient. And also our legacy fixed infrastructure, work underway and getting really stuck into making sure we're getting the cost improvements there.

The second thing around mobile net adds. Look, I won't make comments on broader market at the moment. We haven't seen all of the results yet. But I can certainly comment on what we've seen in the half.

So there's no doubt in this half we did put the price increase through in our mobile postpaid business for our consumer and small business customers. And as we would expect, as we put price increases through, yes, you do see that have some impacts for customers. Some customers will choose to move to other brands, they may choose to move to prepaid. It was all within what we expected. But absolutely, that is part of what played out, particularly in the first quarter of our first half of the year. So as I said, I won't comment on the market. But that's certainly what we're seeing as those price increases flowed through.

On InfraCo, again, just to reinforce, we absolutely have not made any decisions on monetisation of InfraCo Fixed. Through the course of this year, 2023, we are going to be very measured and deliberate as we consider all the possible options. And as you've spoken to, this is a significant business. And part of that consideration, of course, will be what delivers the best long run outcomes for Telstra shareholders. What we would do with those proceeds, obviously, the magnitude of those proceeds will be an important consideration.

But as we've demonstrated in the past, when we're thinking about returning proceeds to our shareholders, we will be very disciplined, we'll apply our Capital Management Framework. And as you've seen in the past, for example, under the Amplitel transaction, there was obviously a significant part of those proceeds that were used as a share buyback. So there are lots of things to consider, Eric, in terms of considering those options through the course of 2023.

Michael, I might just go to you, and see if you want to add some additional commentary.

Michael Ackland: Thanks Vicki, and thanks, Eric. I think Vicki covered very well. I mean, I think on the cost side, I would reiterate, it's a significantly bolder ambition than when we set it. We are focused on all of those areas Vicki talked about, as well as legacy infrastructure. Decommissioning is increasingly important across the business. But it remains our ambition, we remain committed to it. And we do think it's incredibly important that we remain focused on cost, given everything in the external environment and what we need to deliver.

On the mobile markets and what's going on with postpaid subs. There was a movement in that period also between postpaid handheld subs and MBB subs in Enterprise, which depressed our net adds a little bit. But I think overall, there was some additional churn in the first quarter, but well within what we had expected and planned for. And I think we're fairly happy where things are at. And there's no doubt there was a bit of tailwind from Optus in that period during the second quarter as well. But that's now largely normalised.

Nathan Burley: Thanks Michael. I should have mentioned earlier that David Burns, Group Executive from Enterprise, is also on the call this morning.

We'll go to our next question, which is from Entcho Raykovski from Credit Suisse. Go ahead Entcho.

Entcho Raykovski: Thanks, Nathan. Hi, Vicki. Hi, Michael. Hi, David. Perhaps this is a follow up on mobile, around the CPI base price increases, which you have now broadly built into your plans, or you've built that ability. What are you seeing in the market at the moment? Does it give you confidence that you can put through CPI-type price increases middle of the year? I mean, is there anything which concerns you, behaviour from other operators, is that supportive? If you can comment on that, that would be quite helpful, particularly given where CPI is running, presumably that would be a bigger price increase than the one you put through last year.

Secondly, I've also got a question on InfraCo Fixed. I thought it was quite interesting that Michael spoke to all the different ranges, the range of asset classes. So given that detail that you provided, are you considering splitting these out in any monetisation option, or would your preferred option be to monetise as one? It just seemed like you were quite pointed in detailing each one of those asset classes.

And then the final question, in DAC, you've obviously been reaching out to customers, trying to minimise churn. How far are you through that process of reaching out to the customer base? And are you finding that any customers that previously churned are actually coming back, so are you winning customers that way, or is that proving a difficult task? Thank you.

Vicki Brady: Thanks, Entcho. So I'll make some brief comments, and then I'll hand to Michael, and I'll get David to jump in as well, particularly on the questions around DAC.

So just on the first one in terms of CPI-based increases, yes, we've built that into our plans. And just to be really clear, for everyone on the call, we will take a very transparent and the same approach that we took last year. So come April, May, we will weigh up and look at where CPI is at. We have been very clear that we will use the 12 month CPI at the end of March as the basis to consider. Obviously, in amongst that there are many considerations that we will work through. And our absolute commitment is to be transparent and clear, and give our customers good notice of what changes, if any, we make.

In terms of broadly what's happening in the market, again, obviously, I can comment on our strategy. We're very focused, as we've spoken about, our returns are still on a path to recovery. So headed towards our target this year of around 8% ROIC. My observations would be we're seeing a lot of operators across the market looking at that, and making sure we can make the investments we need to deliver the quality of experiences customers expect. And here in Australia, with international travel back, it certainly reminds you that our mobile networks here in Australia are high quality, from a very competitive market. So it is important we get those balances right, so we can deliver the right level of network and technology to customers, and obviously, then get the right level of returns to be able to provide dividends to our shareholders.

So I think the market at the moment, we're still seeing, certainly were focused on that recovery, and making sure that we get returns up to the level that are required. And my observation would be we're seeing pretty consistent view of that across the industry.

In terms of InfraCo Fixed, yes, Michael did talk a bit today about those asset classes. And that's really consistent with where we started when we started our T22 journey. Part of operating InfraCo as a standalone business, we spoke about that transparency, because these were assets and businesses that sat inside Telstra that weren't well understood. And as Michael spoke to, those asset classes have some different dynamics and characteristics. And so we think it's important to continue to be very transparent around what sits within InfraCo, and where those different parts of the business are at.

Look, as I said, in terms of 2023, we will consider a range of options. As I said, no decisions have been made. As you can imagine, there are lots of variations that we can think through, and we'll certainly be weighing up as we look at the InfraCo business and what we think is in the best long term interests of our shareholders.

On DAC, I might hand over to Michael, see if he wants to make any comments. Look, DAC, yes, we are proactively going to our customers. Michael and David can talk more about that. But it is absolutely our goal to make sure we retain our data and connectivity customers. It's a key foundation in our Enterprise business. It's important also into our NAS business. So that relationship on connectivity is important. So we have a very strong focus right now on making sure we're retaining our data and connectivity customers, and seeing some good signs and momentum in that retention. But why don't I hand to Michael, and then across to David?

Michael Ackland: Yeah, thanks. Thanks Vicki, and thanks Entcho. I won't go further into the mobile pricing discussion. I think Vicki handled that well. I think on InfraCo, I think what we're doing as a business is we're focusing on how we operate those businesses better, and drive value and growth through the operation of those businesses, enhancing our go to market, improving data and information around the assets to maximise value, building out our inner-city fibre and driving growth there, recovery of copper and other assets, and being leaders in safety maintenance to improve the quality of those assets. And obviously

getting our cost base right.

So it's important for us to make sure, and we want it to provide that transparency, that we are operating those different areas of the business and going after where the market is with those businesses and what we need to do to drive value. So I think that's really important.

From a DAC perspective, and I think David, it would be great to get him to talk about what is going on with customers and how far through we are. But we are seeing those signs, and we are very focused on retention, particularly around on our T-fibre base, and retaining those relationships with customers is critical. And so while you'll see in our reported results, you'll still see that SIO decline, a lot of that is driven by the legacy SIOs, and David and his team and their focus on retention of fibre, and also in NBN reselling, I think is really critical. So maybe David, if you wanted to touch on that, and where we're up to.

David Burns:

Thanks, Michael. Thanks, Entcho. So as Michael and Vicki have pointed out, retention of the customers, particularly on the T-fibre, is our number one focus. We do recognise that our plans over history, and those customers who have been on those plans for a while, are above what is a reasonable market rate. And so we are actively bringing those customers onto in-market plans.

A few comments of progression as an Enterprise organisation, which is very relevant to DAC. You would have heard and seen in other events, such as Vantage, about how we've aligned ourselves by industries and segments. That's incredibly important, because it now allows us to put products and offerings and routes to market in a very different way to those segments, that's a real step forward for us.

And in those segments, they're quite different, Entcho. So if you think of our large government customers, they are a bit like [painting] the Sydney Harbour Bridge, they're on a regular cycle of two to three years. And we repeat those. So whilst most of those, the vast majority of those are on in-market plans, and you can see some of that in the first half impacts, they'll come up again, even if we renegotiated them a year and a half ago, or a year ago, they'll come up again in the next 12 months quite often.

It's in that mid-market and business segment for thousands and thousands of customers of ours, where we've taken a very proactive approach to go to those customers, as opposed to waiting for those customers to come to us. And we've put together some offerings, with bundles, to those segments. And so in those large volume segments, we're a bit under halfway through. So we've still got a fair way to go of that. And Michael alluded that there's probably three halves of ARPU compression still to come in this business. And that's what we would see going forward.

And so our actions are showing the outcomes we're looking for. Michael, again, highlighted that if you look on a sequential basis, the SIOs in the T-fibre space decline is slowing. And in fact, I know we don't publish on a monthly basis, so I'll just make some comments, but if you look from July to

December, that's quite a very healthy and a very positive turnaround, from negative net adds to positive net adds.

And so we can see the very encouraging signs and returns from those customers, the active plays and offerings that we have in-market and the responses to those in-market. But it is hand-to-hand combat. This is a very, very competitive market segment, with some very competitive offers. And again, as Vicki highlighted, it's an important foundation, particularly to our NAS or Telstra Purple business as we brand it to our customers. It's an incredible foundation, incredibly important foundation for our business, so retaining those SIOs is important.

So less than halfway through, we think we've got three halves still of work to do to get those customers on to a Telstra in-market plan, which will be at a small premium to market, but we've got to face into that ARPU compression over that period of time. Thanks Entcho, and I'll hand it back to Nathan.

Nathan Burley: Thanks, David. Our next question is from Darren Leung from Macquarie.

Darren Leung: Good morning, guys. Thanks for the opportunity. I have three as well, please. I might start with just on the Group level, FY23 guidance. Obviously, we're going down to the lower end of revenue guidance. Can you give us a view as to what are the key unknowns, and why you've attained the upper end of the \$25 billion guidance, and I suppose what can go right to get towards the \$25 billion, please?

Second question was just on the working capital piece. It looks to be a bit of a drag in first half, and I appreciate there's a bit of seasonality in here, but I'm keen just to break out that \$700 million change between payables and inventory and receivables, please. And then I'm keen to understand how receivables are strong, just given the state of the consumer at the moment.

And then the third one, I might have another go at the mobile piece. So obviously there's been a lot of questions about the churn side. Any colour you can provide for us in terms of the split between customers on the back of the Optus churn piece, versus any losses on the back of the price increases, please?

Vicki Brady: And Darren, sorry, I missed, just in your first question around guidance, I heard the bit about income at the low end. Was there a second part to that? Sorry, I may have missed it.

Darren Leung: Yeah, I'm just keen to understand the drivers as to how we get towards the upper end, please?

Vicki Brady: Got it. Okay. Thank you for that. So I'm going to definitely leave – Michael can take you through the working capital movements and talk more to that. Just in terms of guidance. So yes, we're reaffirming guidance. The only change, just to clarify, is we're just saying low end of income guidance. So still inside our guidance ranges, and as Michael spoke to, that's driven by we have seen mobile hardware volumes increase, PCP, however, not at the levels we anticipated. And then obviously, we've seen our fixed business across

C&SB and data and connectivity not quite at the levels we would have anticipated. So those things have contributed to that lower end of guidance.

Look, in terms of the guidance ranges, particularly if I look at underlying EBITDA, it's a pretty tight range. And as you know, our business has a lot of different parts to it. So there will always be pluses and minuses, and you can probably guess we get a little bit better on some of those areas, then that can move the range. But we're not tightening the range at all today, but absolutely reaffirming that we'll be inside our guidance ranges.

I might just jump to your third one quickly. So in terms of mobile and what's going on in churn, as we spoke about, if we look at the half in the first quarter, we absolutely had the pricing changes flowing through. Those churn impacts were as we anticipated, they were inside the guardrails we expected for churn. And then in a second half, in the second part of the half, the second quarter, as Michael spoke to, we saw the impacts from the Optus breach, and that was we estimate in the range of sort of low to mid tens of thousands. And that was right across our mobile business.

And so they're the dynamics that are going on in the half, but as you can see, still positive net postpaid handheld overall growth in the half for us, which we're pleased to see, particularly with strong mobile service revenue growth as well.

So, Michael, I might hand to you for any other comments, but particularly the working capital piece.

Michael Ackland: Yeah, thanks. So on working capital, as we work through it, we've obviously seen an increase versus prior period on mobile handset sales, which has meant customer deferred debt. We've seen a build-up in receivables, but also in inventory. So inventory has finished the half at probably higher than we would have expected, a little bit because of the insourcing of the stores has led to a build-up in inventory, we hold more inventory now that we own the stores, as well as lower income. So we expect all of that to work through in the second half and release that working capital.

In terms of the quality of the receivables, we don't have any concerns there in terms of all of the metrics on bad debt on day sales outstanding. Actually we're seeing a lot of those metrics improve, and we're seeing an improvement in the quality of those receivables. So no real concerns there. But yes, a build-up, a high level of inventory than we would have otherwise expected, which will unwind over the second half.

Nathan Burley: Okay, thank you, Darren. Our next question is from Kane Hannan from Goldman Sachs. Go ahead Kane.

Kane Hannan: Morning guys. Three as well. Just the earnings guidance; given the momentum in that business, mobiles, you'll have higher pricing for a full period and those Enterprise changes. NAS is obviously sequentially stronger in the second half, and those improvements in the cost performance. Is there any reason why we wouldn't be thinking you're tracking towards the top end

of your earnings guidance, given that second half skew?

Secondly, on the free cash flow guidance, I mean, are we still thinking about the midpoint of that as your best guess? I would have thought you'd had some benefit coming through from the lower mobile hardware sales that you're acknowledging, and the revenue guidance.

And then lastly, just in terms of InfraCo separation, should we be thinking about that \$300 million stamp duty payment coming through this calendar year, or did you guys end up applying to stamp duty relief? Cheers.

Vicki Brady:

Thanks, Kane. So I'll talk to each of them, and then I'm sure Michael want to add comments as well. So in terms of overall guidance, as I said, our underlying EBITDA range is pretty tight at \$200 million. We did reduce it again this year. And we're not giving any further indication. We're confident we'll be in that range. And as I spoke to before, Kane, there are a lot of elements of this business; as we've seen in the half, mobile performed strongly, we weren't quite where we expected to be in data and connectivity and C&SB fixed businesses. So there's always going to be ups and downs. And so if everything obviously goes in our favour, then that will put us in a better position. But overall, no change to our guidance range on underlying EBITDA.

In terms of free cash flow, again, we've got that range out there. We're not narrowing the range today. And as Michael has spoken to, working capital can move, and we've seen that. It was pretty much in line with expectations, and so no change in terms of that range on free cash flow for the second half.

And then on InfraCo, to answer your question very directly, yes, in line with the scheme booklet, we did apply for stamp duty relief, the corporate reconstruction relief. That application has been submitted. And as we work through 2023, Kane, I'm sure as you can appreciate, there are many different options and different structures we will think about as part of that. But yes, we absolutely, in accordance with the scheme booklet, we have applied for corporate reconstruction relief on the stamp duty.

So I might hand over to Michael, for any other comments.

Michael Ackland:

Yes, thanks Vicki. And versus plan, we're absolutely seeing if mobile hardware mobile hardware comes in a bit lower, it does reduce what we would have expected to build up for customer deferred debt. But there are pluses and minuses across our cash flow forecasts. And there can be reasonable size swings based on timing of payments. So we are holding with our guidance, but you're right to call out mobile hardware income being lower, does reduce that build-up of customer deferred debt, versus what we would have otherwise expected. But we still believe we're within guidance.

Kane Hannan:

But maybe on the NAS for the second half, I mean, are there contract milestones that we should be thinking about, as you've typically seen, or is there any reason why the NAS business wouldn't have a strong second half margin that we should be thinking about?

Michael Ackland: Well, we absolutely expect NAS to have a strong second half, typical with seasonality. You're absolutely right, it's milestone driven. We have a very strong pipeline, and we expect a really strong recovery in NAS in the second half versus the first half, which is what we typically see. So I think you should be thinking about that.

I don't know whether David, you want to add any more colour on the pipeline for NAS for the second half?

David Burns: Look, Michael, I think you've genuinely covered it. I'm expecting the headwinds of calling apps still to maintain. But to your point, key contracts, which, as you appreciate, can't name them, do deliver and have milestones in the second half, in the pipeline of the second half, and the pipeline of larger deals, which won't make a huge effort to impact to second half, but will help us on our long term 24/25 objectives in our NAS, is as strong as it's ever been. So I think, Kane, what history has shown is reasonably fair.

Kane Hannan: Perfect, thanks guys.

Nathan Burley: Our next question is from Lucy Huang from UBS. Go ahead, Lucy.

Lucy Huang: Thanks, Nathan. And good morning, Vicki, Michael and David. I've got three questions as well. So just firstly, on the mobiles business, just wondering if you can give us some colour into early trading in January and February, particularly how is mobile subscriber momentum tracking? Are we starting to see some benefits coming through from the international migration, or further share gains in the markets?

And then just secondly, on prepaid ARPUs, I think you guys flagged a \$42 million one-off revenue benefit. Just wondering what did this relate to, and should this continue into the second half?

And then just my last question around NBN reseller margins, still aiming for mid-teens by 2025. I guess what do you think will be the primary lever, given the NBN SAU, I think we're not getting the outcome yet on cost reductions there. So is it going to be mainly through price increases, or do you think there's actually a lot more scope to pull on costs to drive that margin improvement? Thanks.

Vicki Brady: Thanks, Lucy for that. And so let me make a few comments and then hand over to Michael. So just in terms of early trade, I don't think there's any real updates to make on that for January and February. Michael might want to make some comments. But it's been pleasing to see borders reopen, and obviously, inbound visitors to the country, and people able to migrate in. So it's good to have those trends return.

In terms of prepaid, yes, we did have a one-off in the period, it was the \$42 million you mentioned. And that was related to as we migrated plans for customers into our new environment. So that was a one-off. Michael can speak more to his expectation on it. But I would very much see that as a one-

off in the half, which is why we did call that out. But even taking that out of the picture, really pleased with our prepaid performance. The business continues to be performing strongly with good U[nique] U[user] growth and also good ARPU growth, even allowing for the one-off. So pleased with the prepaid performance.

And then on NBN reseller margins, when we set that ambition to get to the mid-teens by FY25, we always said it was based on where we anticipated NBN pricing to head. So our focus is very much on what are the things we can do on the revenue side. So things like plan mix, we still sit with around 10% of our NBN customers on 100 meg plus plans. And so there is still opportunity for customers who are looking for those higher speeds to improve mix. We continue to focus on other add-ons to our customers that are valuable to them. So the wi-fi guarantee things of that nature. They're important on the revenue side.

And yes, absolutely, there's more to do on the cost side. And that's critically important, again, in that migration of customers off our legacy systems into our new digital environment. As Michael referenced, as he spoke, we're seeing some really good improvements, both in the experience, and that also is flowing through to better cost in terms of being able to serve those customers in a lower cost environment as well. So those things will all play a part.

But Michael, I might see if you wanted to make any further comments?

Michael Ackland: Yeah, why don't I pick up on prepaid ARPU, and prepaid ARPU has been really pleasing. If I just for a moment ignore the \$42 million one-off, we've seen ongoing increases in data usage in ARPU, which is really the underlying – data usage in prepaid, which is really the underlying driver of that ARPU, which I think is very positive, as people are using the product more.

In terms of the \$42 million, it is a one-off. We're coming very close to the end of our completing the migration of our customers from a whole range of old prepaid products onto the new simplified plans, and also on to the new system. And this is a release of unearned revenue as we go through that process. There will be some more, but this I'd consider this a one-off, and not build it into ongoing forecasts.

On NBN, agree with Vicki. I mean, I think the one point to note; our lift, as we look from first half '22, to first half '23 was driven by ARPU lift. And historically, we'd seen further mix changes. We didn't see those mix changes impact ARPU as much this time. But we do expect when we look at where we are in the market, we still track quite a way behind the market in terms of the mix of plans on the 100 speed and above. So we see considerable further upside there to drive margin in that product.

Nathan Burley: Great. Thank you, Lucy. Our next question is from Roger Samuel from Jefferies. Go ahead, Roger.

Roger Samuel: Hi, thanks. I've got three questions as well. Firstly, just on postpaid mobiles.

Optus, or SingTel just reported, sharing that they lost about 65,000 customers in postpaid in the last quarter, because of the cyber attack. So 65,000 customers that they lost, versus the 68[,000] that you added during the half. It looks like the benefit that you get from them is pretty muted. I'm just wondering if that's mainly because of the price increases that you mentioned before, and the impact on customer churn, or if there's something else.

Second question is on NBN. So you've migrated the customers to a new technology stack. But the SIO still declined in half, and I'm just wondering why that is the case? Was it because of intense competition, and you put up prices? So yeah, what's happening there?

And thirdly on InfraCo Fixed. I think you incurred about \$126 million in one-off costs to separate the businesses. Where does it appear in the accounts? Is it on the InfraCo Fixed EBITDA, or is it in a one-off cost? Thank you.

Vicki Brady:

Thanks, Roger, for that. So yes, we haven't seen the SingTel numbers, because we've been in here this morning preparing for results. So obviously, we'll have a look at that later on today. But again, I would just say, yes, as we spoke to in the first part of the half, we did have the price increases flowing through. And as I said, we did have some churn inside what we anticipated, that definitely played out in the first quarter. And as we spoke to, our estimate, it's always, it is an estimate of what we think we net gained out of the Optus cyber breach. And that sat, as Michael spoke to, sort of in that low to mid tens of thousands. So overall, we're pleased with our overall postpaid handheld net add performance in the half. So there are a number of dynamics at play there.

In terms of NBN, and where we're sitting in terms of SIOs, again, as Michael reinforced when he spoke to the numbers, it is important that we do stabilise SIOs. And yes, absolutely, in this half, we have also been very focused on ensuring we can deliver in a sustainable way. And that has meant some price increases flowing through.

It's fair to say it is a competitive market. And there are some newer players in the market that are, they're competing hard, and they are winning some share in market. And so our focus is absolutely on continuing to deliver the right margins in our NBN resale business, so we can deliver at the level of quality that our customers expect from us, but also stabilising that SIO loss as well.

On InfraCo, I might let – Michael can handle that question in terms of where the \$126 million shows up. So Michael, over to you.

Michael Ackland:

Yes, sure. I mean, that one I'll cover off. It is in one-off costs, both this period and in prior periods as well. It's not in the InfraCo Fixed cost base.

On the NBN SIO decline, the one that I would call out is we did make some pricing changes across both the Belong base and also Belong in market plans, which did lead to a bit of a reversal in momentum on Belong SIOs. But as Vicki said, we remain focused on ensuring that we are delivering and moving

towards our NBN reseller margins. So it was both our price changes, as well as Vicki mentioned, intense competition.

Nathan Burley: Excellent. Thank you. Our next question is from Brian Han from Morningstar. Brian.

Brian Han: Thanks, Nathan. I'll just ask two questions, since you guys must be getting tired of us. Firstly, just looking at FY23, given the \$110 million increase in Fixed cost core in the first half, can you elaborate on how Telstra can reduce that whole cost line for the full year?

And second question is, Vicki, you mentioned that there may be some refinements or adjustments to the T25 strategy. Can you please give some broad indications as to what those may be, and any implications on service or cost levels? Thanks.

Vicki Brady: Absolutely. Thanks, Brian for that. I'll take your second question, and then I'll hand across to Michael who can talk in more detail around Fixed cost core. So yes, when I spoke to our T25 strategy, I am absolutely confident it is the right strategy for us to achieve our ambitions. But as you would expect, it's a dynamic environment, and things do change. And so at times, I may make some of those decisions to make sure we've got our priorities right in order to deliver on that ambition and that strategy.

And just one example, I spoke a little bit about how important it is that we get off legacy and get our customers fully into our new digital environment. So making sure we're accelerating that work. It's a good example where I'm confident that's going to deliver better customer outcomes, and it's going to be an important lever in delivering on our cost ambitions as well.

So I'm not flagging any major strategic changes, Brian, but it is important, it's a dynamic environment. T25, absolutely the right strategy. And as I said, there may be at points some of that prioritisation, the levers we choose to pull on harder, or where we might refocus, that's what I was referring to when I spoke about that. So why don't I hand over to Michael to talk about Fixed cost core?

Michael Ackland: Yes, absolutely. So if you think about the way, what drove our increase, the \$110 million increase in Fixed cost core versus prior corresponding period, as we talked about, obviously, there's labour and non-labour inflation flowing through. But there is specifically the insourcing of the stores and the onshoring of the call centres falling through as well as a little bit of travel. Sequentially, we had started on the insourcing of the stores and onshore of call centres through the second half of FY22. So as we go to the second half, that is a little bit of an easier comp.

We also are seeing in terms of our run rate through Q2, our run rate through Q2 is now at the level – was at the level we needed it to be in the second half to achieve that reduction on full year. So it is really a little bit of we have managed to get to that run rate now as we run into the second half. So we're feeling reasonably confident we will deliver that overall reduction, because

the lift, the majority of the lift in the first half was around those very deliberate decisions, as well as I talked about the lift in energy costs, which will continue into the second half, and that bounce back of travel versus the first half FY22.

Nathan Burley: Thank you. Our next question is from Harry Saunders from Evans & Partners. Harry.

Harry Saunders: Hi Vicki and Michael, thanks for taking my questions. Firstly, just on the ACCC decision, the MOCN, just wondering, would you consider an alternative roaming style agreement with TPG if the MOCN appeal outcome is unfavourable?

Secondly, just wondering if you could give a bit of colour on that home wireless, so you mentioned some revenue growth, perhaps if you could start to provide subs numbers there.

And then just thirdly, could you comment on the run rate currently in mobile net adds, in the last month or so, given the Optus impact now is largely over, and just perhaps checking if the one-off prepaid impact is being reflected in the prepaid ARPU figure that you provide?

Vicki Brady: Thanks, Harry, for that. So just on the ACCC MOCN decision, it's obviously going through the appeal process at the moment, and we expect a decision around June this year. Look, I think it's too early to talk about alternatives. We are appealing it, so we will wait and see where that decision lands in June. But we're absolutely committed. We think there are innovative ways. It is going to be important to get the outcomes for regional Australia, and also to get the right level of returns to sustain investment. I think innovative sharing arrangements, as we've demonstrated under the MOCN deal, I think will be important in the future of delivering great mobile services into the country. So too early, I think, to speculate on what we might or might not do, let's see the outcome of that appeal process.

In terms of home wireless, I might get Michael to talk a little bit more about that. As we said, just in terms of things normalising post the Optus cyber breach, yes, we've seen things largely normalise there. And then finally, yes, in our prepaid ARPU, I'll get Michael to 100% confirm that yes, the \$42 million one-off does flow through, and so I think we've called that out pretty clearly in the detailed numbers.

But Michael, why don't you jump in and comment?

Michael Ackland: Yes, thanks Vicki. The \$42 million is absolutely in the prepaid ARPU. So as you look forward, you need to adjust that out for an underlying figure, as you forecast forward for prepaid.

On home wireless, we continue to build momentum. But our strategy remains the same, which is that we are focused on home wireless where it makes sense, where it's a better outcome for customers, and that's how our strategy will continue.

Nathan Burley: Excellent. Our next question is from Rod Sleath from Rimor. Go ahead, Rod.

Rod Sleath: Hi, guys. Thanks very much for taking my questions. So many have obviously already been asked, and I'm going to apologise, because I'm going to come back to a couple of points that have been spoken about somewhat.

Firstly, I just wanted to come back to the question on alternatives with regards to TPG, but I just want to ask the question in a slightly different way. Because obviously, the sticking point, which makes it something that has to be approved by the ACCC, or via appeal, is the access to the spectrum. Is regional capacity an issue for you in the context of taking on further wholesale sales to MVNOS? Do you need additional spectrum to be able to do what you want to do in the regions? That's the first question.

And the second question is also coming back to something we've already spoken about, and that is the SIOs in predominantly NBN. Reasonably consistently now, you have been losing SIOs. And in this half, it's been both in Belong and in the Telstra brand. And I think you made the comment earlier, a few times, that you need to get volume stabilisation, but at the same time, you also need to be moving ARPU upwards. And it just seems like the evidence at the moment is suggesting that in the current competitive environment, that is actually unbelievably difficult to do; the prices go up and you lose SIOs. So I was just wondering, are you having to think about perhaps changing the offerings that you have in NBN, perhaps offering less inclusions and a slightly lower price, et cetera?

And then the third question was actually just on the other division, which I look at, and feel that in the future, the ultimate, the long term earnings there are predominantly going to be from Telstra Health. Given that that's close to a break even EBITDA, that business is presumably still in investment phase. Is it reasonable to expect that we should be seeing reasonable cash and EBITDA returns coming from the other area in the medium term?

Vicki Brady: Thanks, Rob, for those questions. So I might get, I'll get Michael to deal with the SIO question on NBN. So let me talk a little bit about your first and your third question. So just on the first question, look, you're right, an important part of the deal that we proposed with TPG was spectrum. We think the efficient use of spectrum is incredibly important. And so TPG, under that deal, would have spectrum that wouldn't be used. And so it gave us a way to use that spectrum efficiently, and bring customers onto our network in that sharing zone in a very efficient way, and deliver better overall customer outcomes.

Now, obviously, if the deal does not get approved through the appeal process, we've been there delivering for regional Australia for a very long time. And we are an operator that does invest, and is there supporting regional Australia. Our network today covers about a million square kilometres more than our nearest competitor. And so the spectrum would be a great addition through the proposed deal, but obviously, if it doesn't get approved, we've been there delivering for regional Australia for a long time, and we will continue to do that.

In terms of other, and talking about Telstra Health, Telstra Health is an incredibly exciting business. And so, yes, we've got a clear ambition to get it to be a \$500 million revenue business by FY25. And you're right, it is in that high growth phase at the moment. We did make a couple of important acquisitions last year to add to that business, the organic business is growing, we've got those new acquisitions that are also performing well. So as we look out medium term, absolutely we would see it as another driver in our business, to be delivering revenue and EBITDA benefits to our longer run and medium term growth ambitions. So I think the way you're thinking about that is spot on. Why don't I go to you, Michael on NBN SIOs?

Michael Ackland: Yes, sure. And I think it's a fair comment on where we've been on NBN SIOs, and particularly as you mentioned, we made some changes to prices in Belong, and so that was part of the reason we had a negative net add position there.

We remain, I think we remain committed that delivering a quality in-home experience is incredibly important. And we have invested, as you said, in our inclusions, and particularly the inclusion of the modem. But there's no doubt we face significant challenges. And we've had now a number of halves, as you pointed out, where we have not been able to reverse that SIO decline, and so we are looking at what we can do to continue to evolve the proposition, continue to improve the experience, as we're doing with our migration to the new digital stack.

But ultimately, we need to be delivering a product that can deliver reasonable returns, and our objective on reasonable is mid-teens by 2025. So we're balancing all of those things up. But absolutely no doubt, we're continuing to review the proposition, continuing to listen to what customers are saying they need and that they want, and that they value, and we will continue to evolve our propositions to meet those needs.

Nathan Burley: Excellent. will soon turn to a time of media Q&A. So I'll just invite any media on the call to register your questions. And with that, we will go to the last investor and analyst question from Ian Martin from New Street Research. Ian.

Ian Martin: Thanks for that. Yes, I just wonder if you can comment on some of the recent announcements we've seen in private LTE networks, AWS announcing the local zone in Perth, and I think Adelaide is coming up, it looks like they're targeting the mining sector, which Telstra has traditionally been dominant in. And then a week or so ago, we had Vocus buying Challenge networks. So it looks like there is quite a new incursion in infrastructure competition in that market, that Telstra has traditionally dominated, so give us your thoughts on that?

Vicki Brady: Yes, thanks Ian, and good to have you on. A whole different topic from the ones we've been on today. So thanks for that. So there is a lot going on. I think this is an incredibly exciting area. And they're all spaces that we're active in, where we have made some acquisitions as well over the last little while. And I'll get David to jump in, in just a second, because this is right in

the sweet spot of where David is focused, and where he's taking the Enterprise business, particularly with that focus around industry verticals. And mining, mining is a great example of that.

And I would point out, yes, I mean, AWS has made some announcements recently, they are an important partner of ours, we partner very closely with them. And so I think there is a lot happening in this space. And it really demonstrates how important infrastructure investment is, to underpin the ability for these industries to really reap the benefits of digitisation. And obviously, we're a big investor in infrastructure. Our inter-city fibre investment is a key foundational investment that's going to inject more capacity into the country.

And so we're excited. Yes, it's a fast moving environment, and there's lots of people in it. But I think that really demonstrates that this is an exciting area where there is more value to be created. But David, why don't I get you to jump in and talk a little bit more on what's going on in your world in Enterprise?

David Burns: Thanks, Vicki, and thanks, Ian. So yes, as you mentioned, AWS have announced two of their local zones, Perth, Brisbane, and potentially to be Adelaide. I'm not sure that I've heard that confirmed, but you might have, Michael – Ian sorry. But again, we'd be positive about that. Telstra is, and through our go to market brand, which we call Telstra Purple, our tech services business, provision of hyperscaler solutions, and Azure and AWS are our two largest partners and providers. And in fact, we have our own practices around that; we have, in fact more people skilled in those areas than many or most in the country. And putting that together with our network offerings is actually key to our strategy. And aligning that to our industries is also key.

I mentioned earlier industries of how we put propositions together, is incredibly important. The mining industry, the construction industry, the energy industry, are three of ours that we put together in one group actually, and are very focused around that, and is where we're driving the value up the stack, if you like.

And we do that in combination with some acquisitions we've made. So we've made two acquisitions that are around IoT and in fact, industrial automation in particular around IoT, Acura and Alliance, and a third acquisition we recently made around Epicon who can bring all that data, data management together into decision making forums and decision-making processes, faster, better, cheaper, for our customers as being incredibly important. So when we put the hyperscale of solutions, the investments that they're making, which we totally welcome in places like Perth, Brisbane and to be Adelaide, and we put them together with our investments that we've made, acquisitions into these specialist organisations that allow us to penetrate into those industries and up their value stacks greater than we've ever been before.

So we're doing more in water companies. We're doing more in energy companies, and we're doing more in mining companies than we've ever done before. And in fact, I'm very excited about a pipeline and placement of those

opportunities, and I think there's much more for us to talk about perhaps at the end of the half in those areas. And so, it's a positive thing from an enterprise perspective and I think from a Telstra perspective.

Nathan Burley: Thank you, David. Thank you, Ian. We'll soon move to media Q&A, but before I do that, I'll just hand over to Vicki to close the investor and analyst question time.

Vicki Brady: Thanks, Nathan. I just wanted to say a big thank you to all the investors and analysts that have joined us this morning. It's been our great pleasure to share our results for the first half, and as I said, it's great to see our business continuing to deliver that strong growth and look forward to engaging over the coming weeks as you digest our results and thanks again for joining us today.

Nathan Burley: Thank you.

[Video plays]

Nic McKechnie: Good morning, everyone. I'm Nic McKechnie, Communications Executive at Telstra, and welcome to the media portion of today's half year results. I have a few questions. But don't forget, if you do want to register, please do so now for the Q&A for media. The first question comes from Dave Swan. Dave, good morning.

Dave Swan: Thanks for having me, for the time, and congrats on the results as well. A couple of colour questions. I know Michael and Vicki, you talked about Optus; tens of thousands of customers joining Telstra following their data breach and you've launched an ad as well, highlighting your own cyber capabilities. I wanted to ask: what did Telstra do in the wake of the Optus breach, making sure your own systems were safeguarded, for example; any extra reviews of your defences or anything like that? And I wanted to ask you, Vicki: your first results obviously as CEO; what's been the biggest challenge or surprise for you since taking on the top job?

Vicki Brady: Thanks, Dave, and great to have you on the line. So firstly, yeah, I mean, any breach; so just to be clear, if we see major breaches in Australia or around the world from a cyber point of view, and the Optus breach was no different, we're always looking for learnings because I think when it comes to cyber security, it is 24-seven and it's a job that's never done. So we take learnings out of any breach of that magnitude that's happening around the world. The things we focused on are naturally our cyber defences. We do have very deep capabilities within Telstra. But as I said, we can never be complacent because this world is moving so fast. So yes, through any of those learnings, we will always be making sure that our defences are strong in terms of defending and protecting our network, our customers and our customer data and information.

In the wake of the Optus breach, one of the areas we have focused on is absolutely the data we collect and retain, and we've already taken some steps there to make sure that we've absolutely got to comply with all of our obligations and laws around retention of data, but making sure where we can,

make changes that make sense, that are in the best interest of our customers. We've done that, for example, the holding of the ID scans that we take when a customer joins us, when we've got to verify their ID. We've reduced the time we hold those scans from two years down to six months now. So that's the work that we're really – some of the learnings we've taken out of the Optus cyber breach. But as I said, it's an area you can never be complacent in.

In terms of stepping into my new role; yes, almost six months now in the chair of CEO, and I've got to say it has been an incredible six months. It's been exciting. It's been intense. Yes, it's challenging. I think with any new job, when you step into it, I'd say it's doing things the first time in the new role. And if I take today as an example, yes, I've done results before sitting in the CFO chair, but this is the first time I've delivered results sitting in the CEO chair. And Dave, if I'm honest, preparing for investor and analyst questions, we usually have a good idea. But obviously this is a bit of a new world for me, so engaging and getting to have a broader conversation. So they're some of the exciting and new things that come with this role.

Nic McKechnie: Thanks, Dave. OK, next question from Zoe Samios from Fairfax. Hi, Zoe.

Zoe Samios: Good morning, and thank you very much for speaking with me. Just a couple of questions from me, too Vicki. I apologise by the way if this was on the call. I'm juggling a few results this morning. But are you able to talk to whether you think mobile and broadband prices can stay where they are at the moment, or if you think they're likely to go up. And secondly, just on the deal that's under appeal between Telstra and TPG; obviously there's a few formalities there. But is there anything you're able to say around your confidence in getting that passed, or being successful in that appeal?

Vicki Brady: Thanks, Zoe, and no problem; I know you're juggling lots of people reporting today. So just in terms of mobile and broadband prices; so we have been very clear. We obviously brought into the market last year to a number of our plans, to be really transparent and clear with customers that we would do an annual price review. And so in the first part of the half results that we've just reported, we did see those prices changes flowing through. And so we will take the same very transparent approach, and the way we will approach that: come April-May, we will undertake our pricing review. We do take into account where CPI is at for the 12 months to the end of March. That will be in the consideration, and as I said, it's not a decision we've made yet. That will be something that we consider.

We are very conscious, and it is front of mind for me, that our customers are feeling the cost-of-living pressures. And so it's so important the changes we made in recent years to get rid of lock in contracts, to really leverage our multi brand strategy, so that our customers have choices. They can choose the plans and the brands that give them absolutely the ability to match what they can afford. So those things are going to be incredibly important. So no decisions made yet, and that will be how we work through that come April-May timeframe. And again, our commitment is absolutely to be very transparent and upfront, and clear on any of those decisions that we make.

In terms of our proposed deal with TPG, our network sharing deal, that is under appeal at the moment. We're expecting a decision around June this year. Obviously, where that lands, that's going to be up to the Tribunal to decide. But we think it is an innovative deal, that importantly would improve experiences in regional Australia for our customers, and would also obviously give TPG much greater reach into regional Australia. So we think it's an innovative deal that is a really commercial way to be able to share network infrastructure into regional Australia. And so, yeah, we will wait and see where the appeal decision lands.

Zoe Samios: Great, thank you.

Vicki Brady: Thanks, Zoe.

Nic McKechnie: Thanks. Next up, we've got Simon Dux from CommsDay. Hi, Simon.

Simon Dux: Hi there. Morning, Vicki, and a very strong set of results as well. I've got a couple of questions as well. The first one: as you guys are the biggest RSP in the land, I want to get your thoughts on NBN's Fibre Connect product. We're seeing fairly slow take up at the moment. Obviously, in your plans, you've only got 10 percent at the moment on 100 meg and there's an aspiration to kick that one up. You're looking to improve your margins as well. So I'd like to get your thoughts on where you see Fibre Connect fitting into Telstra, and how active you're going to be on pushing that out this year. Second question: NBN, yesterday in their results, increased business revenues quite strongly, up 11 percent. I'd like to get your thoughts on how much that's impacting DAC business in Telstra. And final question is around essentially today's results: how much of the results do you think are a vindication of elements you set up in T22?

Vicki Brady: Thanks, Simon, for that. So just starting with your first question around Fibre Connect from NBN; so yeah, I mean, it's exciting to see that investment and building out more fibre. Absolutely, for us, we'll make sure we've got a really clear and smooth experience for our customers, so obviously being able to support that to make sure our IT systems are set up and we've got our channels to market, able to make that a really smooth experience for those customers that choose it, remembering at the moment, obviously, consumers are experiencing cost of living challenges. We know there will be segments of customers and we're excited by that, being able to provide them where they choose to that option. And as you rightly point out, we sit with about 10 percent of our NBN customer on 100 meg plus plans. That is lower than where the overall average is. So absolutely, for a segment of customers, that's going to be important. So yes, we look forward to being able to support that smooth transition for customers who do want to take advantage of Fibre Connect.

In terms of NBN's results; I've only had a very quick read of them. As you can imagine, my focus last night and today has been absolutely preparing for our results. I did see, as you mentioned, they had strong business revenue growth. And as we've talked about today, our data and connectivity business; yes, it's absolutely still feeling the effects of competition in that space.

However, NBN resale is an important part of our enterprise business, so we have the option of our Telstra Fibre and also reselling NBN Fibre as well. So yes, we're still seeing the effects of that and we also see opportunity in being able to resell NBN Fibre also.

And then today's results, yes, your last question was around; absolutely. I think today's results absolutely show and demonstrate that the change that was delivered under T22 was absolutely the right areas to focus on, and we are seeing the benefits of that flowing through into our first half results.

Simon Dux: Thanks.

Nic McKechnie: OK, thanks Simon. Next question from Joseph Lam from The Australian. Good morning, Joseph.

Joseph Lam: G'day Vicki. So a couple of questions around mobile. So the results say that income is expected to be at the bottom end of guidance due to mobile hardware and fixed product revenues being lower than expected. Can you share what the revenue from mobile hardware was and how Telstra will seek to improve that for the rest of the financial year? Another question: so Michael Ackland, in his speech, said customers are holding onto handsets for longer as well as purchasing from external parties. Do you know how long roughly Telstra customers are holding onto their handsets for? Is the reason they purchase from external parties to do with pricing, and does Telstra have a plan to get people to purchase handsets from you instead of external parties? Thank you.

Vicki Brady: Thanks, Joseph for that. So yeah, just in terms of – we're still inside our guidance ranges. So we've reaffirmed that as part of our half year results. We did indicate on income we'd expect to be at the lower end of that guidance range, and you were spot on. The two components there were mobile hardware and our fixed business. Just in terms of mobile hardware; so we have seen growth in mobile hardware when we compare to the prior corresponding period, so it's up about 12 percent. We had anticipated more growth than that, and that's because we have customers coming off their device repayment plans for both 24 month plans and 36 month plans at the moment. So we had anticipated that to be little bit higher.

As Michael did speak to, yes, we're absolutely seeing customers choose to hold on to devices a little bit longer. I think broadly at the moment, obviously averages, I think we're sitting at around three years is that average renewal cycle. It obviously varies. There's some customers that are very eager to renew, and others that hold onto devices much longer. But I think on average, we're seeing about three years at the moment.

In terms of where people buy their devices from; look, we give customers the choice to buy devices through us, and they can choose to repay for that retail price of the device over a deferred repayment. Yes, we see customers choosing to buy in lots of other retailers. And we think that choice is important. And so we're pleased with where we're tracking in terms of the number of customers choosing to buy devices through us, and that's been a

trend we've seen over the last few years in terms of people choosing to buy from other retailers as well. So no concerns from us on that.

Joseph Lam: Thank you very much.

Nic McKechnie: Thanks, Joseph. Next question from Lucas Baird from the AFR. Hi, Lucas.

Lucas Baird: Hi, guys. Thanks for taking the questions. Just three from me. The first one on InfraCo Fixed; should we just assume that's not going to happen this year and is more one for 2024? And then on NBN; I mean, what specifically worries you about the SAU and can you just reflect on Stephen Rue's comments yesterday that they don't want to move any further on providing any more wholesale cost relief? And then the third one was just: is Telstra considering any more cost cutting measures going forward, on top of the \$500 million in T25, or can we offset most inflation area pressures by passing on the increased cost to customers?

Vicki Brady: Thanks, Lucas for that. So just on InfraCo Fixed; I know it's one we get a lot of questions on, and to be really clear, we've made no decisions on InfraCo Fixed in terms of any transaction there. What we have been very clear on is these are really unique and valuable assets. And so through the course of 2023, we will be very deliberate and measured as we work through possible options. And what will guide us is what's in the best long-term interests for Telstra shareholders. So that's exactly where we're at, so we will work through that, through the course of 2023.

In terms of NBN and the current NBN SAU; so the first thing I would say is there's some steps in the right direction, and I absolutely appreciate that NBN and Stephen, they've got guardrails they've got to operate within and deliver. What we've been strongly advocating for on behalf of customers is firstly service standards. We haven't seen improvements in service standards under the currently submitted SAU. They're pretty consistent with where they were two years ago, and we know for our customers, they rely heavily on their NBN service. And so lifting those service standards is something we will continue to advocate for. And the second thing that we've been advocating for is not to see the price increase on that 50/20 plan. We have around half our customers on those plans, and particularly in the current environment where people are feeling the pressures from cost-of-living increases, we're advocating that we would suggest that there should not be a price increase on that 50/20 plan again. I appreciate NBN has got to operate and figure out how they operate within their guardrails, but that's what we're advocating for from a customer standpoint.

In terms of our \$500 million cost out ambition under T25, there's no change to that ambition. That's an ambition that we're still aiming to achieve. Obviously, it's a bolder ambition today. When we set that ambition, inflation was not running where it is right now, but we know in this current environment, we've got to keep driving efficiency in our business. And so accelerating that move off our legacy IT systems into our new digital environment is absolutely critical. So we remain committed to that \$500 cost out ambition.

Lucas Baird: Cool. If I could just follow up on InfraCo just a second; considering throughout 2023, do you expect to come to a final decision on what to do with it in this calendar year, or do you think that's a bit more far out?

Vicki Brady: Well, as I said, this is a really important one. It's one we don't want to rush on. We need to really think through what's in the best long term interests of Telstra shareholders. So as I said, we will consider through the year and we'll provide updates as we make progress. And we'll come back to it at that point, Lucas.

Lucas Baird: Right, no dramas. Thanks, guys.

Nic McKechnie: Great, thanks, Lucas. Next question from Eric Johnston from The Australian.

Eric Johnston: G'day. Thanks for taking my question. Look, just again on the inflation issue; I'm trying to get a sense of what you see at Telstra. Where are the pressures coming from in terms of pricing increases in your business? Is it the supply chain issues working their way through? Are they more domestic issues, energy and so on? Just to give some colour around that?

Vicki Brady: Yeah, thanks, Eric. Look, I think like most businesses, we're seeing pressure from inflation across a wide range of parts of our business; no doubt energy is one part of that. We spoke to today we would expect that extra energy or power costs this year to be in the order of \$50 million on the cost line. We do, however, have power purchase agreements in place that help offset that largely at EBITDA. We're certainly seeing most suppliers to our business, whether domestic or international. Of course, they're feeling cost pressures. So we're seeing that as well.

And we've spoken to today, we do have cost mitigants. We will need to consider obviously where we look to pass on those prices, for example, if I look at mobile hardware, where we see prices lifting there. They pass through in terms of the recommended retail price that we offer to customers. So yep, we're seeing inflation play its part. Right at this stage, we do have some mitigants and we're very focused on making sure we're pulling the levers we've got to be able to navigate this period and deliver the right outcomes for our customers and for our shareholders.

Eric Johnston: OK, thanks.

Nic McKechnie: Thanks, Eric. I think that is the last question we have from the media today, so we might wrap there. Thanks, everyone for joining, appreciate your time. And we will see you next time. Cheers.

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