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Telstra announces new nation-building Intercity Fibre routes

In accordance with the Listing Rules, the attached market release is provided by Telstra Group Limited for release to the market.

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

Release of announcement authorised by:

The Telstra Group Limited Board

Telstra announces new nation-building Intercity Fibre routes

Tuesday, 14 November 2023 – Telstra today announced five new major routes to be built as part of its Intercity Fibre project, as well as an expansion of fibre connections across WA's Pilbara region.

At its 2023 Investor Day, Telstra CEO Vicki Brady said these investments would deliver next generation digital infrastructure for the country as demand for connectivity continued to soar.

“Connectivity will continue to play a key role in our economy and there is enormous potential for digital technologies to rewrite Australia’s growth equation,” said Ms Brady.

“As the largest investor in digital infrastructure in Australia we are uniquely positioned to design and deliver this critical infrastructure, which will enable ultrafast connectivity between capital cities. Importantly, we have future-proofed the design and given ourselves the ability to extend this connectivity into regional and remote communities as demand grows and other partnerships arise, which will open up opportunities for regionally based industries and businesses.

“This connectivity will build Australia’s fibre resiliency and support data centres that facilitate cloud and AI, remote working and education needs, health services, high-definition entertainment consumption and online gaming, and IoT use cases such as mining and agriculture. We are also continuing to see strong demand from hyperscalers looking for higher capacity and more direct routes.

“Telstra InfraCo already has the largest fibre and duct network in Australia – 250,000km of fibre optic cable connecting 133 data centres. The Intercity Fibre project will extend this further with thousands more kms of ultra-high capacity, ultra-low latency connections,” said Ms Brady.

First announced in February 2022, construction of the Intercity Fibre project commenced in March 2022. In August 2022 Telstra announced the first five priority routes, and construction is well underway with more than 400km of cable already having been laid.

Detailed planning has commenced on an additional five routes, including connecting into Darwin from Adelaide, which will begin construction in 2025. This route unlocks pathways to sub-sea cable infrastructure, provides new options for DC locations including to service Asia, and provides important resiliency to the nation’s fibre pathways. Ten routes, plus a major expansion and upgrade of the fibre network in the Pilbara region, are now in planning for FY23-FY27.

Ms Brady said Telstra had a long track record of delivering nation building infrastructure with a highly experienced workforce and top tier partners, coupled with strong governance around delivering projects while managing risks.

“We have built successive generations of Australia’s largest mobile network. Outside of the Intercity Fibre project, our ongoing annual construction activities include other fibre deployments, with over 3,300km deployed in FY23 across a range of uses cases including DC-to-DC, fixed wireless backhaul and enterprise fibre. Other construction activities include mobile tower and infrastructure upgrades, commercial and recoverable works programs, and recent major projects including the upgrade of the Tasmanian Government radio network,” said Ms Brady.

Telstra confirmed that funding for the updates to the Intercity Fibre project and Pilbara extension announced today, plus the Viasat project, would be at the top of the previously announced \$1.4 to \$1.6 billion strategic capex envelope between FY23 and FY27, which was outside of BAU capex.

The Intercity Fibre and Viasat projects are on track to deliver mid-teens IRR or better, a nine-year cash payback, and around \$200 million¹ in additional annuity income on a run rate basis once all routes become ready for service and contributing. Cash payback and IRR are supported by expected IRU contracts where a significant proportion of long-term contract value is received upfront.

Critical connectivity for WA Pilbara region

Telstra also announced it would expand its fibre infrastructure across Western Australia’s Pilbara region.

“With over \$180 billion of investment coming from mining, oil and gas, clean energy and other sectors, the Pilbara and North West of Australia is set to see significant growth over the coming decade,” said Ms Brady.

“Telstra will invest to expand infrastructure in this region to capture growing demand and support customers, as well as uplift the resiliency of our network across key routes.”

The project will materially expand Telstra's fibre footprint in the region, including ~165km of new fibre build for use by Telstra customers to connect additional mining sites.

FY24 financial guidance reconfirmed

At the event, Telstra also reconfirmed its financial guidanceⁱⁱ for FY24:

- Total income of \$22.8 to \$24.8 billion
- Underlying EBITDAⁱⁱⁱ of \$8.2 to \$8.4 billion
- Capex^{iv} of \$3.6 to \$3.7 billion
- Free cashflow after lease payments (FCFaL)^v of \$2.8 to \$3.2 billion

In his presentation, CFO Michael Ackland said in FY24 to date, Telstra's mobile business continued to perform strongly.

“In Enterprise, the headwinds in DAC and calling we outlined at our full year results remain broadly in line with expectations,” said Mr Ackland.

“However, consistent with professional services activity in the market more broadly, our professional services growth and managed service performance will be less than expected. As a result, we do not expect NAS revenue and EBITDA to grow in FY24.

“In terms of phasing, we expect FY24 Underlying EBITDA to be second half weighted, given timing of Fixed costs, asset disposals and growth in InfraCo Fixed.”

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ⁱ Dependent on the mix of sales contracts (including IRUs) and assumes all IRUs are treated as operating leases.

ⁱⁱ This guidance excludes material one-offs, such as mergers and acquisitions, disposals, impairments, spectrum, restructuring costs and such other items as determined by the Board and management.

ⁱⁱⁱ Underlying EBITDA excludes guidance adjustments, and in FY23 and prior years also excludes net one-off nbn DA receipts less nbn net C2C

^{iv} Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases

^v Free cashflow after lease payments defined as ‘operating cash flows’ less ‘investing cash flows’ less ‘payments for lease liabilities’ and excludes spectrum and guidance adjustments.