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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Half Year Results Presentation, 17 February 2022 – Transcript

I attach a copy of the transcript from the analyst and media briefings held on Thursday 17 February 2022 in relation to Telstra's results for the half-year ended 31 December 2021, for release to the market.

Authorised for lodgement by:

Sue Laver
Company Secretary

Introduction

Nathan Burley: Good morning. Good morning and welcome to Telstra's First Half Financial Year 2022 Results presentation. My name is Nathan Burley, Head of Investor Relations. I respectfully acknowledge that I am joining today from the lands of the Kulin Nation. And 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.

This morning after presentations from our CEO Andy Penn, and CFO Vicki Brady, we will be taking questions from analysts and investors, and then media. I will now handover to Andy Penn. Andy.

Presentation from Andrew Penn

Andrew Penn: Well, thank you very much, Nathan. And good morning, everybody. And welcome to Telstra's results announcement for the half year ended 31st of December 2021. It's a half in which we saw our underlying business continue to grow, and a half in which we also saw the benefits of our T22 strategy flowing through for our customers, and for our shareholders. And a half in which we announced the transition to T25 – a strategy for growth, a strategy that leverages the foundation and capabilities that we have built through T22.

Now, we believe that we have achieved these results because we have stayed very disciplined and focused on delivering what we said we would. Our T22 strategy has been a clear success. We are now a vastly different company, and we are determined to finish the job.

And as the nation has developed an ever-increasing reliance on digital connectivity, particularly over the last two or three years as we've navigated our way through COVID, we are very well placed to deliver the infrastructure, the solutions, and the security needed by our customers, and to support Australia's aspiration to become a world leading digital economy by 2030.

This morning, I will make some introductory remarks and take you through an overview of our results. Vicki will then take you through the numbers in detail before we move to Q&A. Can I say though, thank you all for attending today, albeit virtually. And hopefully, we will get the chance to catch up face to face soon. With that, let me turn to the results.

FY22 is a pivotal year for Telstra financially, as we see the near final negative transitional effects of the NBN in our reported results, but with the growing momentum in our underlying performance starting to show through. For example, our reported total income includes declines of around \$450 million in one off NBN receipts, and \$200 million in NBN commercial works. Whilst on the other hand, our underlying results demonstrate the benefits of our T22 strategy.

Total income for the half therefore decreased 9.4% to \$10.9 billion on a reported basis. NPAT decreased 34% to \$0.7 billion, and Earnings Per Share

was down 35.9% to 5.9 cents per share, also both on a reported basis.

In addition to the impact of the NBN, the declines on a reported basis also reflect the one-off gains last year, from the sale of our Velocity and South Brisbane exchange fibre assets, and the sale and leaseback of our Pitt Street exchange.

In contrast, though, to our reported results, underlying EBITDA on a guidance basis increased 5.1% to \$3.5 billion. This was the second consecutive half of underlying EBITDA growth. Underlying EBITDA including an NBN headwind in the year of \$190 million, which was down on last year, and which will of course be less again in the second half.

Underlying EPS was up 55% to 6.2 cents per share, a very strong start against our T25 ambition of underlying EPS CAGR in the high teens from FY21 to FY25. The Board has resolved to pay a fully franked interim dividend of 8 cents per share, returning around \$940 million to shareholders. And whilst this is the same level of the total interim dividend as last year, it's worth noting that it includes an increase in the ordinary dividend component from 5 cents to 6 cents per share.

Also, by the end of December, we were more than 40% of the way through our \$1.35 billion on-market share buy-back. We expect to complete the buy-back by the end of the current financial year.

I will now turn to some of the operating highlights for the half. We continued to see good customer growth in mobiles, despite the impact of COVID on population growth and our retail presence. We added 84,000 net retail postpaid mobile services, including 62,000 branded, with a strong contribution from Enterprise. Our branded performance reinforces the benefits of our clear leadership in 5G. In wholesale we added 91,000 services, and we added another 452,000 IoT services.

Our continued focus on mobile leadership and building value resulted in 5% postpaid handheld ARPU growth, 6.3% mobile services revenue growth, and \$392 million mobile EBITDA growth. Our performance in fixed for consumer and small business customers has been more challenged, particularly as we are now at the end of the migration to the NBN, and dealing with some of the most difficult cases. Net new retail bundles were negative 50,000, although bundle and standalone data ARPU increased 0.5%.

Notwithstanding the disappointing sales performance, we are confident of restoring momentum by leveraging the benefit of the many value-added home broadband features that Telstra offers. These include the Telstra Smart Modem, Telstra TV, the Telstra Wi-Fi guarantee, and of course our new 5G fixed wireless offer.

Also earlier this month, Foxtel reported a 19% increase in paid streaming subscribers to more than 3.9 million, compared to last year. This strong subscriber growth positions Foxtel, and of course our investment in Foxtel, very well for the future, as well as providing great entertainment experiences

for our customers.

In Enterprise, and in line with our previously communicated aspiration, we returned to income and EBITDA growth, and we are on track to deliver growth for the full year.

Growth in the half was achieved across mobile, international and NAS. NAS income and EBITDA grew in the half by 2.4% and 67%, respectively. And Vicki will talk a bit more about that later. We also recently signed a major contract with the Department of Defence.

InfraCo Fixed income was also up 1.5% for the half to \$1.2 billion excluding commercial works. Telstra Health also had a strong half, both strategically and operationally. Revenue was up 9%, or if you include the acquisitions of MedicalDirector and PowerHealth, up 37%.

Confirming our continued improvements in customer experience, episode NPS improved 11 points in the last 12 months, and five points in the last six. Strategic NPS declined two points in the last 12 months, and four points in the last six, although remains up 13 points since the launch of T22.

Finally, on our operating highlights, we have made very strong progress in our productivity program. For the half, underlying fixed costs were down \$254 million, and total operating expenses were down \$644 million, or 8%. We're on track to deliver a reduction in our underlying fixed costs of approximately \$430 million for the full year.

So it is clear we have financial momentum. And in fact, if you look at the left-hand side of this slide, it shows the growth that we have achieved in underlying EBITDA in the last three halves, including the \$3.5 billion delivered this half. Against this, our guidance for the full year is \$7 to \$7.3 billion, which indicates growth again in the second half.

The chart on the right-hand side of this slide shows the evolution of our full year underlying EBITDA, including our aspiration to be in the range of \$7.5 to \$8 billion in FY23, and our T25 ambition for mid-single digit CAGR out to 2025. These statements for FY23 and FY25 are not guidance. They are aspirations and ambitions, which means that they are subject to greater risks and uncertainties associated with them, compared to our normal guidance statements. Nonetheless though, the chart clearly demonstrates our ongoing financial momentum and our ambition for further growth.

With that, let me turn back to our progress with T22. We have completed, or we are on track to deliver, over 80% of our T22 scorecard metrics as we enter the final six months. I will highlight today just a few of our many T22 achievements. But at the full year, I will provide a comprehensive review as we close out the program.

Since announcing T22, we have radically simplified our business, reducing the number of consumer and small business plans from 1,800 to 20. And we now have more than 9.4 million services on those plans.

We have removed lock-in contracts, we've removed excess data charges, and many other fees. We have 4 million customers signed up to our rewards program, Telstra Plus. And we are seeing strong engagement with NPS for customers who are members of Telstra Plus, around 20 points higher than the customers who are not.

For consumer and small business customers, digital sales interactions were up 11 percentage points in the half to 50%. In fact, overall, almost three quarters of all service interactions with consumer and small business customers are now digital.

The number of calls coming into our consumer and small business contact centres has fallen by 70%. That's 70%. And by the end of this financial year, we expect to answer all of these calls in Australia.

We are also well progressed on the arrangements to bring our licensee stores back in-house. By the end of December, we had insourced almost half of the 166 branded stores previously run by independent licensees. We've also completed the acquisition from¹ Vita, bringing another 104 stores back in-house.

In Enterprise, we have rationalised the number of active products by more than a half, and our adaptive networks and adaptive mobility products are providing more flexibility to our customers. And similar to our digitisation progress in consumer and small business, more than a third of all Enterprise service interactions are now through the digital channel.

On ways of working, we have further progressed our journey to introduce Agile, and today we have around 17,000 people working in Agile at a high level of maturity.

Excluding hires due to COVID workforce restrictions, we have met our T22 target to reduce our direct workforce by 8,000 net. Overall, in fact, we have reduced our direct and indirect headcount by one third, or 27,000, in response to the transfer of a material part of our business to the NBN, and from our digitisation and efficiency initiatives.

At the same time, we have exceeded our target to recruit new capabilities in new areas, such as software engineering, data analytics, cyber security, and artificial intelligence, with more than 1,500 new hires to date.

We have delivered cost reductions of \$2.5 billion, and we are on track to deliver our T22 productivity target of \$2.7 billion.

We've monetised over \$2 billion worth of assets, further strengthening our balance sheet. And this is in addition to the sale of a 49% stake on a non-controlling basis in our Towers business for \$2.8 billion, which was finalised

¹ Verbatim "of".

this half.

In network leadership, our 5G network is now more than twice the size of our next nearest competitor, and we cover more than 77.5% of the population, with 2.8 million 5G devices already connected.

Not surprisingly, therefore, we also continue to lead the market in the major mobile industry performance benchmarks in the year, including umlaut, where we were ranked number one for Best in Test, and Best in Data. umlaut's 5G audit also showed that Telstra had by far the widest 5G availability in each of the eight tested cities.

We've also just been awarded Australia's fastest mobile network by Ookla. The Ookla Speed Test Award found that we were faster nationally, and faster on both median download and median upload speeds, in the three largest Australian cities, being Sydney, Melbourne and Brisbane.

As spectrum holdings are crucial to our ongoing leadership, I'm therefore pleased to report we secured the maximum possible low band spectrum at the December auction, and we will now be using our 900[Mhz] spectrum to support our 3G network, with more capacity for regional and rural customers ahead of retiring 3G in FY24. Together with our existing spectrum holdings, we continue to hold more low band spectrum than any other carrier, which is important given our larger customer base.

On infrastructure, the business has been operating for some time now as a standalone business unit under the leadership of Brendon Riley. We are also well progressed on our legal restructure, and you will have noted the introduction into Parliament in late November of last year, changes to legislation, which are consistent with this. There are a couple of steps that we still need to conclude, and we anticipate announcing the details of the scheme process that we will be going through by the end of this quarter.

Turning to our T22 scorecard. In the half, we completed our ambition to have more than 45% of consumer and small business sales transactions through the digital channel. That therefore brings the total number of completed measures for T22 to 25. With less than six months to go, we're on track to complete another 10. This includes two new measures that have been added in the half to achieve 40% of Enterprise service interactions through the digital channel by FY22, and for all consumer and small business incoming calls to be answered in Australia.

As I've previously reported, there are some measures that are rated amber or red. However, there have been no significant changes to these ratings from the full year. So I will only make a couple of comments. Firstly, on underlying ROIC, our target is to achieve around 8% in FY23, and this is consistent with the financial ambitions I spoke to earlier. Secondly, our employee engagement increased to 80 by the end of December, and has improved further since then. We are on track to achieve our target of a 10 point improvement by the end of this year, placing us amongst the top performing companies globally.

In terms of finishing the job on T22 over the next few months, our key focus is on firstly completing the Group restructure to drive value from InfraCo and create optionality, while preserving Telstra's core differentiation; further improving customer experience, including completion of bringing our stores in-house, and our consumer and small business call centres onshore; further consolidating our position as Australia's largest 5G network, with 80% population coverage [by the end of FY22]; restoring financial momentum to Telstra Enterprise by building on the first half results, and delivering overall revenue and EBITDA growth; starting to scale our Energy business and delivering high teens growth in Health revenues before acquisitions; ceasing sale and new development on the old technology stack, while migrating at scale to the new one; continuing to deliver operating momentum, including in mobile SIOs, Telstra Plus, media services, and turning around the performance in fixed consumer and small business; and delivering our \$2.7 billion annualised productivity target; and finally delivering on new ways of working, including leading employee engagement, and being at full scale with Agile.

With that, let me turn briefly to T25. As you know, like T22, T25 is built around four key strategic pillars. Firstly, to provide an exceptional customer experience you can count on. Nothing is more important than continuing to improve customer experience, and this sits at the very heart of T25.

The second pillar is to provide the leading network and technology solutions that deliver your future. The third pillar is to create sustained growth and value for our shareholders. And the fourth and final pillar is to be the place you want to work.

T25 is a strategy that is focused on growth by leveraging the capabilities that we have built under T22. And in the same way that T22 would not have been possible without the foundational investments that we announced in 2016, T25 would not be possible without all that we have accomplished in T22. And that is why we are so committed and so focused on finishing the job on T22.

We will deliver T25 through our five key businesses; consumer and small business, Enterprise, new markets which comprises energy and health, international, and infrastructure. And the four pillars of T25 are guiding the strategy for each of these businesses, but each has its own ambition reflecting the place it is at, and its opportunities ahead. And of course, in its implementation, we will be using exactly the same disciplines and governance that we used for T22, including a T25 scorecard that lays out the key milestones and metrics that underpin the strategic pillars.

This scorecard shows how we plan to keep track of our progress, and how we will hold ourselves to account to you. It's ambitious in its breadth and its depth, and like T22, while we may not hit every single measure 100%, I would rather be bold and clear about our aspirations, and be transparent with you about the progress that we are making. So we will update the scorecard at every results presentation, starting next financial year.

In the meantime, we have already made some good progress. The recent TIO quarterly complaints report showed that our complaint numbers fell 50% in the

last quarter, compared to the same quarter last year.

Earlier this month, we of course announced two major telecommunications infrastructure projects to support the nation's digital economy, and enable unprecedented levels of connectivity right the way across Australia. That includes building and managing the ground infrastructure and fibre network in Australia for Viasat's new Series 3 satellite system, and the major new fibre project to build a state of the art intercity dual fibre pass, right the way across the country. In fact, we've updated our T25 scorecard for the new fibre build to 20,000 kilometres accordingly.

Last month, Telstra Health was selected to deliver 1800 RESPECT for an initial five years, at an estimated contract value of around \$200 million. This adds to the recent strategic health software company acquisitions in GP practice management, and specialist billing and clinical coding.

We also announced earlier this week the appointment of Elizabeth Koff as the new CEO of Telstra Health. Elizabeth, of course, is the current Secretary of New South Wales Department of Health, and has been responsible for navigating the state's health system through COVID, very successfully.

Whilst Mary Foley will be staying with us on the Board of Telstra Health and in an advisory capacity following her retirement in June, I did want to take a moment to acknowledge and thank Mary for her outstanding leadership over the last five years. She has truly transformed the Health business, and placed it in an excellent position for growth.

On energy, we received the final licence approvals for Victoria in December. This adds to earlier licences in Queensland, New South Wales and South Australia, and we are now therefore trialling the product with our first customers. And earlier this month, we announced a \$100 million deal with Intellihub to provide up to 4.1 million IoT SIMs over the next decade. It's our largest ever IoT deal in terms of value and number of devices. And the IoT SIMs will help deliver real time monitoring and insights to help Intellihub and its customers better manage their energy demand. So it shows exactly the sort of opportunity for us as a provider of energy, and broadband, and IoT services together.

In November, we announced our intent to form a new joint venture with Quantum, to bring together Quantum's market leading data science and AI capabilities with our customer, product and network assets. This unique partnership is a key enabler for our T25 data and AI ambitions. We're also bringing to life the many ambitious goals we have set ourselves to be a leading responsible and sustainable business. And in December, we announced that we will be broadening our existing greenhouse gas emission reduction targets to include a 50% reduction in Scope 3 emissions by 2030 from our FY19 baseline. Now, our Scope 3 emissions are three times greater than our Scope 1 and Scope 2 emissions added together. So you can see this is a very significant commitment.

And finally, while strictly not contemplated in our T25 strategy, in October last

year, we announced the acquisition, in partnership with the Australian Government, of Digicel Pacific, adding 2.5 million customers, and leading mobile businesses in PNG, Fiji, Vanuatu, Tonga, Nauru, and Samoa to our international business. We are currently working through the final stages of the regulatory process for the acquisition, and anticipate that will be completed by the end of this quarter.

So, in summary, while we have not yet transitioned fully to T25, we are putting in place the initiatives that will fuel our growth in the future.

And with that, let me close. The transformation of Telstra and our turnaround has continued, and we are well positioned for growth. We have stayed disciplined on the execution of T22, and our hard work is paying off. The benefits are flowing through for our customers, and for our shareholders. We're delivering a better customer experience. We have removed many pain points, and we have raised the bar on doing business responsibly.

Our mobile network remains Australia's biggest and best. Agile is transforming how we work, and combined with our hybrid working model, it is also helping our people to feel supported and perform at their best. Our T22 program has been a clear success, and we are determined to finish the job and complete the transition to T25.

I would like to close by acknowledging that we have made the progress that we have, because of the combined efforts of the many dedicated Telstra employees. Despite the disruptions and the impact to them personally from COVID, every single day, they have focused on working for our customers and keeping Australians connected. And for that, I want to sincerely thank them.

Thank you. And with that, I will now hand over to Vicki before we open for Q&A.

Vicki Brady:

Thanks, Andy. This morning, I'm delighted to provide details of our First Half '22 Results, which demonstrate the disciplined execution of our T22 strategy, translating into ongoing financial momentum and underlying growth. These results do, however, show declines on a reported basis, due to the negative effect of transitioning customers to the NBN, and one-off gains on sale of assets in the prior comparative period.

I will now take you through the results, starting with our first half '22 income statement and financial highlights on slide 13. The left hand side shows our reported results for first half '22. Income was \$10.9 billion, down 9%. EBIT was \$1.3 billion, down 22%. Net finance costs declined due to a reduction in both net debt, and lower average borrowing costs. Tax increased 42%. The effective tax rate of 28.5% in this half, compared to only 16% in the prior corresponding period, with capital losses offsetting the profit on asset sales. Reported NPAT declined 34% to \$0.7 billion. This decline was due to a number of one-offs in the PCP.

The right-hand side of the slide shows our underlying results. These underlying results exclude NBN one-offs, which on an EBITDA basis declined \$395

million as the NBN migration completes. They also exclude restructuring and guidance adjustments, which reduced \$267 million, largely due to gains on the sale of assets in first half '21.

Underlying is the basis on which we provide EBITDA guidance. Underlying income declined 4%. This included in-year NBN headwinds, and the roll off of NBN commercial works. Low margin mobile hardware revenue also declined. This included the impacts of supply constraints.

Underlying EBITDA was \$3.5 billion, up 5.1%. This included absorbing an estimated \$190 million of in-year NBN headwind, further illustrating the strong financial performance of the underlying business.

Depreciation and amortisation declined 5.5%, due to several assets fully depreciating in first half '21. Our FY22 D&A outlook for an around \$100 million reduction is unchanged. This excludes any potential lease exits, as we right size our property portfolio. From FY22, we expect D&A to be broadly flat.

Underlying EPS grew 55% to 6.2 cents per share. The Board has resolved to pay an interim dividend of 8 cents per share fully franked, including a 6 cent ordinary and 2 cent special. The interim dividend represents 136% earnings payout ratio, or a 67% payout of free cash flow.

In first half '22 we have continued our financial growth trajectory. Slide 14 shows the trend in our underlying EBITDA by half. Looking sequentially, the blue arrows show that we have gone from \$41 million growth in the second half of FY21, to growth of \$130 million in first half of FY22. This momentum is a result of improved product trajectory, especially in mobile, ongoing productivity, and slowing drag from fixed and NBN headwinds. Today we reaffirm FY22 guidance, and therefore expect further sequential growth of underlying EBITDA of up to \$300 million in the second half.

Now looking at EBITDA growth in more detail by product on slide 15. These products represent the new categories we announced in January. These changes result in more transparency across our infrastructure business, with InfraCo Fixed and Amplitel, our Towers business, shown on a standalone basis. And our mobile and fixed products as shown, including internal infrastructure costs.

Mobile continued its momentum, and was the key contributor to first half growth, as we see execution of our T22 strategy to simplify our plans flowing through to the bottom line, along with successful monetisation of 5G leadership. Mobile EBITDA grew \$392 million, driven by service revenue growth, transitioning our customers off subsidy and lease plans, and ongoing productivity. Mobile growth was partly offset by declines across our domestic fixed portfolio, albeit the decline reduced versus FY21. International contributed positively. InfraCo Fixed declined \$100 million due to the runoff of NBN commercial works. InfraCo Fixed EBITDAaL grew, excluding commercial works. Other EBITDA declined \$24 million, due to a range of corporate adjustments.

I will now take you through the key products, firstly, looking at mobile, with four charts shown on slide 16.

On the top left, you can see mobile service revenue, which is the key long-term driver of mobile profitability. First half service revenue grew 6.3%. Pleasingly this growth was across the board, with all segments and product service revenue lines growing, including postpaid, prepaid, mobile broadband, wholesale and IoT.

The biggest category and contributor to growth was postpaid handheld. We added 84,000 postpaid handheld customers, with SIO growth in all segments, including a strong contribution from Enterprise.

Postpaid handheld revenue growth was largely due to ARPU, which can be seen on the bottom left chart. It grew 5% with all brands and segments in growth, as we monetise 5G and our network leadership.

Reported growth is despite around \$1.50 negative impact from accounting changes, including a shift from gross revenue recognition, to net margin recognition for some add-ons. These changes are non-economic, illustrated by the strength of our mobile EBITDA.

First half '22 ARPU has now largely captured the full benefits of the pricing and associated \$5 transacting minimum monthly commitment lift from FY19 to '21. However, our momentum continues, and our lead indicator of postpaid handheld ARPU, TMMC, grew a further \$2 in first half '22 versus PCP, or \$1 sequentially. We expect this to flow through to ARPU in second half '22. However, it will be offset by further non-economic accounting impacts.

The return of international roaming, to the extent it does return, will also benefit future ARPU.

We now have 82% of our mass market customers on in-market plans. These plans provide customers with more simplicity, transparency and certainty, including ensuring everyone is on the latest plan. Like any business, we have inflation pressures, and our in-market plans can accommodate price changes simply. This would be similar to the approach taken by some international telcos and other industries here in Australia.

We remain confident postpaid handheld, in addition to other mobile revenue lines, can contribute to our ambition for a mid-single digit mobile service revenue CAGR to FY25.

In the chart on the bottom right, you can see that prepaid handheld performance was strong, with revenue growth of 6.9%, due to a 67,000 increase in unique users and higher ARPU. Our prepaid business has moved to the new digital stack, and we are seeing a higher proportion of customers using auto-recharge through the My Telstra app, giving us more confidence in the quality and stability of this revenue.

Finally, top right you can see mobile EBITDA percentage margin, which grew from 33.2% in first half '21, to 41.8% in first half '22. This illustrates the operating leverage we have in mobile, as we grow high margin service revenue, and continue to achieve reductions in fixed costs through productivity.

The margin increase has now captured the full benefits of transitioning off subsidy and lease plans. Revenue mix also supported the percentage margin increase, including a lesser amount of lower margin hardware and interconnect revenue.

Turning to infrastructure on slide 17. We have a world class set of fixed infrastructure assets across fibre, ducts, and fixed network sites, with over \$2 billion of annualised infrastructure access revenues. One of the pillars of T22 has been to set ourselves up to better realise the value of these assets. Recurring revenue from NBN for the use of InfraCo Fixed assets is shown on the top right chart. It grew 2%. These revenues are indexed to CPI for the remaining average contracted period of 26 years.

InfraCo Fixed also includes NBN commercial works revenue, which is rolling off as NBN rollout nears completion, and contracts end. Other commercial and recoverable works also declined, impacted by a slowdown in relevant construction.

InfraCo Fixed revenue excluding commercial works is shown on the top left chart. On this basis, both InfraCo Fixed revenue and EBITDAaL grew. We remain confident in the outlook for InfraCo Fixed, with demand supporting our T25 ambition for low single digit EBITDAaL growth, with additional long term growth from the strategic infrastructure investments associated with the two major projects we announced in early February.

Turning to Fixed Enterprise on slide 18. Overall the decline in Fixed Enterprise moderated, as NAS growth partially offset the data and connectivity decline. Data and connectivity revenue declined 12%. T-fibre SIOs were flat sequentially as we successfully re-signed key customers. For example, we now have contracts to supply high bandwidth fibre and broadband to almost every public school in the country, and recently signed major contracts with the Department of Defence and Viasat. However, overall SIOs declined, driven by lower value copper and legacy connections, which were impacted by consolidation and NBN migration.

ARPU compression continued due to the NBN rollout of business fibre zones and technology change. As a result, data and connectivity revenue decline is not expected to slow in FY22.

Despite ongoing disruption, we continue to target growth from the portfolio by FY24, by navigating through price compression, and returning to SIO growth, as we leverage our extensive fibre footprint, complemented by reselling NBN.

In NAS, income and EBITDA grew 2.4% and 67% respectively. Cloud, professional and managed services, including security and IoT, all grew consistent with our strategy. This was partly offset by legacy decline.

Although it was pleasing to see NAS return to growth, we continue to target higher levels of income growth in this business. EBITDA also benefited from productivity. NAS margin was 8% in first half '22, or 11% before our restatements to include internal infrastructure charges.

We have always believed mid-teens margins are required to ensure appropriate returns from this business. And this remains our ambition. We expect to achieve around 13% in FY22, pre the internal infrastructure charges. By FY25, on this new basis, our ambition is to reach mid-teens.

The bottom right chart shows total Enterprise revenue and EBITDA. Slowing Fixed Enterprise decline, international growth, shown on the bottom right chart, and especially strong mobile growth, contributed to Enterprise delivering overall revenue and EBITDA growth. This was in line with our commitment to achieve Enterprise growth in FY22.

Finally, turning to fixed C&SB and active wholesale. In fixed C&SB, revenue and EBITDA declines reflect SIO losses and the tail end of NBN migrations and legacy declines.

We are however confident that EBITDA has now reached the bottom. Our confidence in achieving growth is due to four key factors. First, the NBN migration is now substantially complete, which reduces the future economic headwinds and drag on SIOs. Second, we see further ARPU momentum. ARPU grew in the half on plan mix, despite the benefit of price rises being credited until second half '22. TMMC is currently accretive to ARPU, and we expect to continue to lift the 9% of NBN customers on 100 megabit per second plans and higher.

Third are the benefits from migrating to the new digital stack. As migration progresses, we are seeing similar customer and financial benefits that were achieved in mobile, now flowing through to fixed, with the NPS for customers on the new digital stack 20 points higher, and lower cost to connect.

Finally, ongoing productivity will also benefit fixed C&SB. These factors also support off-net margin expansion. Our first half '22 off-net EBITDA margin was 4%. A small decline sequentially, which includes higher NBN CVC overage costs, and investment in customer experience.

We stand by our NBN reseller mid-teens EBITDA margin ambition. However, we now expect to achieve this in FY25, rather than FY23. This right shift reflects the slower realisation of digitisation benefits, including from disruption on our workforce due to COVID-19, and our trading performance.

Our ambition for FY23 is to more than double EBITDA margin from the 4% reported this half. We are confident of achieving this, and our mid-teens ambition, by FY25, as we deliver on the key items I've just spoken to.

Our fixed C&SB outlook longer run is also supported by 5G home internet, where there is strong demand and opportunity. We see SIOs accelerating in

second half, and getting to scale in FY23.

Turning to fixed active wholesale, which is a much smaller portfolio following our restatements, with commercial works and facilities access moving into InfraCo. As a result, our prior outlook for fixed wholesale therefore no longer applies. The EBITDA decline was largely due to the tail end of NBN headwinds, legacy product declines, and similar trends in data and connectivity to Enterprise. Further declines are expected until legacy and NBN impacts roll off, and before data and connectivity stabilises.

Turning to our operating expenses, which you can see on slide 20. We are pleased to have achieved further cost reductions in first half '22. Total costs declined 8%, and underlying fixed costs declined 8.9%. An increase in NBN payments was more than offset by declining other sales costs, including lower hardware costs. Underlying fixed costs reduced by \$254 million, enabled by our T22 drive to digitise and simplify our processes, as well as our move to a more agile workforce.

Migration of customers to the NBN, along with our focus on rationalising vendors and services, has also contributed to the cost reduction. This means that since FY16, we have delivered \$2.5 billion of cumulative annual recurring cost reductions, and we are confident of delivering our \$2.7 billion target in FY22. Under T25, our ambition is to deliver a further \$500 million of net fixed cost reduction, from FY23 to FY25, while investing for growth.

Turning to free cash flow, which you can see on slide 21. We continued the strong conversion of EBITDA to cash, with cash running significantly above accounting earnings. This is partly due to structurally lower BAU capex than adjusted D&A, by approximately \$600 million per annum, or approximately \$250 million per annum in FY23 to FY25, after an additional \$350 million per annum from the strategic infrastructure investments announced a couple of weeks ago.

Free cash flow after lease payments declined, with lower reported EBITDA due to one-offs partially offset by working capital improvements. Working capital improvements in first half '22 were largely due to reduced receivables, including from lower handset sales and stronger collections.

Consistent with our historical split, we expect FY22 cash flow to be weighted to the second half. In first half '22, M&A adjustments included \$428 million related to the acquisitions of MedicalDirector and PowerHealth, and \$183 million from insourcing retail stores.

In financing cash flow, we also received \$2.9 billion, or \$2.8 billion net of costs, from the sale of the 49% stake in Amplitel. At the end of first half '22, we were \$571 million of the way through our planned up to \$1.3 billion buy-back, using part of the proceeds from the Towers transaction.

Turning to our capital position on slide 22, we reduced net debt by \$2.1 billion in first half '22, supported by our strong free cash flow, and proceeds from the partial sale of our Towers business. We remain within our comfort ranges for

all our credit metrics, with debt servicing at 1.9 times. This provides us significant flexibility ahead of the Digicel acquisition closing, completing our buy-back, and announced strategic infrastructure investments.

Underlying ROIC improved from 4.5% in first half '21, to 6.2% in first half '22, with momentum from executing our T22 strategy delivering progress towards our FY23 target of approximately 8%.

Turning now to FY22 guidance, which is unchanged. You can see the ranges along with the assumptions and conditions upon which we have provided them, on slide 23.

To summarise, our results clearly demonstrate our financial momentum and strong underlying growth. We have confidence this momentum will continue, driven by product growth, delivery of productivity and diversifying our growth, including in infrastructure, health, energy and through the Digicel acquisition. This will also support delivery of our financial ambitions under T25. We continue to have strong cash generation, a strong balance sheet, and will stay disciplined and focused on creating shareholder value.

I remain excited by the future and the opportunities in front of us. Finally, I would like to thank and recognise our dedicated teams right across Telstra. And I will now hand over to Nathan to take us through Q&A.

Q&A – Investors and Analysts

Nathan Burley: Thank you. Thank you, Vicki. So we will now start a time of Q&A, beginning with investors and analysts. On the call in addition to Andy and Vicki, are Michael Ackland, Group Executive, Consumer and Small Business; David Burns, Group Executive, Enterprise; and Brendon Riley, CEO, InfraCo. We will now take our first question.

The first question is from Eric Choi from Barrenjoey. Go ahead, Eric.

Eric Choi: Morning, guys. Thank you. A few for me. Just the first one on mobile, and I wanted to pick up on your comment with regards to accommodating inflation with your in-market plans. I guess the question is, are you – I'm just looking at your postpaid ARPU growth, and it's growing sequentially, and it's obviously outperforming your peers who are seeing their postpaid ARPUs more flat sequentially. And obviously, you guys are benefiting from your back book pricing changes, and they aren't. So I guess the question is, are you happy with your pricing premium versus peers, such that you can sort of pull that CPI price lever? Should I continue with the second and third, Nathan, or stop there?

Nathan Burley: Let's keep going, Eric.

Eric Choi: OK. The second one, just on international subs, I guess the industry feedback is the headwinds from exiting international SIMs subsided this half. So I'm just wondering if that benefited your postpaid net adds at all? And previously you guys have called out a \$200 million roaming drag. Just wondering what the drag from your loss of international subs was?

And then just the last one, a bit more of an open ended one that maybe you guys can take on notice. Just looking at Europe and people looking at the valuations of NetCos versus ServeCos, and the propensity of people to value NetCos and punish capex in NetCos less. Just wondering if you can start splitting some of these '23 and '25 targets between InfraCo and remaining Telstra, just to help us with I guess our valuations and how we think about the different free cash flows. Thanks.

Andrew Penn: Hey, Eric. It's Andy. Thank you very much for those questions, and for your ongoing interest as always. I'll make a couple of comments, and then I'll maybe hand over to Vicki and Michael Ackland. On the last point, just on the question around can we basically split out capex and the financials from the infrastructure side of the business, compared to the ServeCo side of the business; that is something that I think we are gradually doing. I mean, the whole product restatement was part of that this year, and the process we're going through to set up InfraCo as a standalone business unit first, and now putting in place the actual legal structures around it.

And I do think that once we get through all of that, it will be worthwhile us spending time engaging with the market to really understand what's the best way and what's the most helpful way to present some of those financials. So we will take that on notice, and we will reflect on it, because we appreciate it is important. And as you say, people are thinking about those two things differently. And I think our investment that we announced the other day in some long term big infrastructure projects is consistent with that.

On the mobile pricing points and international subs. On mobile pricing, obviously we're not in a position to talk about our plans – it wouldn't be right for us to talk about what our plans are, etc on pricing. As you pointed out, and I hope people fully appreciate this, but maybe I'll just tease it out a bit. Because when we launched T22, and we went from 1,800 products to 20, one of the key philosophical things behind that was that we wanted to move to a world where we didn't have a back book. Because in lots of industries, including telecommunication, what tends to happen is when companies update features or update prices, they do so on the plans for customers that might buy them tomorrow. They don't necessarily flow the benefit of that back to customers who bought plans previously. And so they issue it as a new plan. And that's why you end up, candidly, with 1,800 plans. And it's a bad customer experience. It's administratively expensive to manage.

And so that's the commitment that we made. So we went to 20 simplified plans. We now have nearly 10 million, I think it's 9.4 million customers on those plans. And the benefit of that is all of those customers get the benefit of everything that we do to enhance them as we do it. And as a consequence, because we've made price changes, they flow through immediately, which means it's a lot simpler for customers, it's a lot easier to understand, and obviously if we make price increases or changes in the future, whether they're inflation driven or otherwise, we'll have the benefit of that. That's why we get the flow through.

Well look, with those comments made, I might handover to Vicki and Michael to see if there's anything else you wanted to add. Particularly also, I haven't touched on the international subs point that Eric raised as well. So Vicki, or Michael?

Vicki Brady: Yeah, thanks, Andy. Why don't I make a couple of comments and then Michael can jump in. So Eric, just in terms of postpaid handheld ARPU, we're obviously pleased with where it's at. And you can see that momentum as I spoke about. We've now largely captured those pricing benefits from the TMMC uplift through FY19 to '21, that \$5 uplift. And as I said, we would expect, as we look at the second half, there is continued momentum; however, those accounting changes will largely offset that. So that's playing out.

In terms of the impact on our business from international people not coming into the country, we've obviously highlighted the \$200 million of international roaming as the biggest impact, and it is undoubtedly the most significant impact. Of course, we've seen population growth decline, and so that has had an impact on us, as it has on our competitors in the market and the industry overall. But we haven't drawn it out, Eric, and separated as an impact. As I said, that roaming impact is really the most significant one. So Michael, I'll hand over to you.

Michael Ackland: Yes, thanks, Vicki. I think you covered it. I mean, we're very pleased with our mobile performance in the first half. And I mean, the only comment I'd probably make on the international element is, we've also been very pleased with what has occurred in our prepaid book, and we're seeing increasing quality as Vicki talked about in our prepaid book.

I guess when you look longer term in terms of students and international arrivals, we probably benefit more longer term from a return to population growth, as people move to quality, as they've been here a little bit longer. But very pleased with first half mobile performance, and very happy with where our prices are at in the market, and our balance of value and volume. Thank you.

Eric Choi: Thanks team.

Nathan Burley: Thanks Michael. We will go to our second question, which is Entcho Raykovski from Credit Suisse.

Entcho Raykovski: Morning all. I've got three questions as well. I'll give all three to you now. The first one, the delay in NBN reseller margin ambitions to FY25. I'm also interested in whether this has also been driven by a more competitive environment, given that some of the smaller operators seem to be taking market share? So any comments there would be useful. And I guess as part of that question, where are you seeing offsets within your business to maintain the overall Group ambitions? Is it a stronger mobile performance? Obviously, mobile had a very good first half. So in terms of how you're thinking about that, out to FY25?

And then secondly, you've obviously touched on mobile, and Michael, those

comments around population growth, etc are very useful. But just your views on mobile market share over the period you added 84,000 postpaid subs, I think Optus had 70,000 over that same period. I guess are those net adds from your perspective sustainable, or have you perhaps benefited from incumbency, given there have been lockdowns and some shadow lockdowns where the incumbent tends to do better, and there's limited switching?

And then finally, on free cash flow. I guess I'm just trying to understand the second half weighting, given the working capital benefit that you got in the first half. Perhaps this is one for Vicki, if you're able to talk to the factors that are driving this? And again, as part of that question, do you expect the working capital benefit to continue beyond FY22? Thank you.

Andrew Penn: Thanks, Entcho. Look, on the NBN reseller margins, I will get Vicki to comment on that, and also the free cash flow, then maybe Michael Ackland can make some comments on mobile market share and the outlook there. But there's no doubt that the NBN reseller market, if you actually, if we look at our peers, their margins have gone backwards. So there is definitely an aspect or an element at play there.

The other dynamic that we experienced probably more so relative particularly to the newer players is, we still are in the world of migrating customers to the NBN, so existing customers to the NBN, whereas they're just targeting new customers. And I mentioned in my opening remarks that we are now down to obviously the last few remaining customers that need to switch over to the NBN. But they are some of the most challenging customers to migrate technologically. because the NBN has tended to back end some of those more difficult, technical areas, which is not a criticism of NBN, by the way, it's just the natural dynamic. So that makes it quite a tricky thing to work through.

So I'm confident we'll be through that by the end of the year. And there's lots of initiatives that we do have in place, which maybe Vicki could comment on, in terms of how we offset it and how we actually get the margin more to that mid-teens level, in the timeframe that we've indicated.

But Vicki, do you want to take the rest of the NBN question and the free cash flow one, and then we'll get maybe Michael to speak about mobile trajectory?

Vicki Brady: Sounds good, and thanks, Entcho, for those questions. So firstly, on the NBN reseller margin, yes, I mean, there are a couple of things that are really driving that shift, moving it to the right. As I spoke to, the benefits of moving our fixed customers onto the new digital stack, we're progressing, but it's a little bit behind where we had hoped to be. So that definitely flows through, because as I spoke to, we undoubtedly are seeing with the progress we are making on transitioning customers, we're definitely seeing both benefits in customer experience and also benefits flowing through in terms of the cost to support those customers. So that's one piece of it.

There is no doubt the trading performance is also playing a part. So as we just spoke to, net adds are negative for the half in our C&SB fixed business. So that is playing a part. But at the moment, definitely the focus is on that

migration of customers to make sure we flow through those customer experiences, and the cost benefits of that migration. And obviously, we continue to compete in-market, and Michael might want to comment a little bit more on that, with some of the things he's got in-market right now.

On the third question on free cash flow, yes, my comment on free cash flow weighting, it is consistent with prior years. It's not heavily weighted second half, it's just a little bit more weighted second half, which is what we would ordinarily see. Yes, the working capital improvements in the first six months driven by receivables, particularly obviously handset sales, remain at lower levels still, with the impacts of retail store foot traffic through the half, and also supply constraints on mobile hardware. So that's played a part.

In addition, collections have actually tracked well also. As I look to the second half, obviously we've got a strong focus on managing working capital and I don't expect any big swings in working capital, so we will continue to manage that in a very disciplined way. As we look out to '23 and '24, obviously one of the big factors will be where do the volume of mobile hardware transactions settle back to as we get through COVID impacts on foot traffic in stores, and we get through various supply constraints on mobile hardware. But we'll have a very strong focus on working capital; we know how important it is.

But probably the biggest swing factor as you look further out is that mobile volume of hardware revenue which we'll obviously manage and look to offset through other working capital improvements also; but that's the biggest swing factor. Michael, I'll hand across to you.

Michael Ackland: Thanks, Vicki. I'll make a couple of quick comments: the first on the commentary around fixed and those new players, and I'd reinforce Andy's point around they are very attractive to customers, particularly those who've been at the tail end of NBN migration. But we're very focused on delivering that significant uplift in customer experience and, although it's delayed, it is coming through and we expect that to give us a real headwind.

We're also seeing, I think, in terms of our shift of our mix towards the higher speed tiers lift, and we expect that lift to continue as we move forward; so we're feeling confident about where we'll get to on fixed but that delay in digitisation has meant we're not able to get there as quickly as we would have expected.

Just on mobiles and the sustainability or otherwise of SIO growth, just a couple of comments around what defined a little bit around the first half – and I think Andy mentioned about a strong performance in Enterprise – we had a strong growth across all segments, but a particularly strong net add performance in Enterprise.

From a consumer and small business point of view, activations were down and activity in the market was down, but only slightly. And churn – our post-paid handheld churn was – on a sequential basis – was down a little bit but not dramatically. So we're feeling pretty good about our performance in market and our ability to track customers as we move forward.

Nathan Burley: Thanks, Michael.

Michael Ackland: Thank you.

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

Kane Hannan: Morning guys. Three from me as well, please. Maybe, Vicki, just a couple more on the mobile in the second half; does that \$1.50 accounting impact you've called out this half, is that going to be the same in the second half or does that move around?

And then the Enterprise side of things, you had a very strong revenue growth in the first half, is that going to be supportive of sequential revenue growth going into the second half?

And then just one on data and connectivity: just talk a little bit about the pricing environment you're seeing, also what you're expecting in terms of the targets to return to growth in FY24.

And then a last one on InfraCo Fixed: just following those inflation comments on the mobile side of things, can you just talk about what the overall impact would be on InfraCo Fixed earnings if we saw a real big pickup in inflation? I know the NBN payments are CPI linked, but are there any caps or linkages or other things we should be thinking about that might impact InfraCo Fixed earnings? Cheers.

Andrew Penn: Thanks very much, Kane. I think that was four questions, not three; but anyway we'll go with that. But on InfraCo Fixed, to your point yes, our business has a natural hedge in it by virtue of the fact that those NBN payments are subject to CPI; which I think creates a lot of value in those income streams as we know. And I think overall our position in a higher inflation environment is therefore pretty well protected from an InfraCo Fixed perspective.

But what I'm going to do, I'll hand to Vicki to pick up your questions on the mobile second half, and if she's got anything else to add on InfraCo Fixed. And then it will be good to get David to maybe make the comments on Enterprise and through that on the data and IP.

Vicki Brady: Yes, thanks Andy, and thanks Kane for those questions. So on the first one around mobile post-paid handheld ARPU, yes, first half we've seen \$1.50 impact – non-economic impact – but \$1.50 impact on ARPU through those accounting impacts. And just to be clear what are they – there's two big components of it. One is the accounting impacts I've spoken to for a little while now as we transition to our new plans that split apart the service component and the handset component, a little bit more revenue gets allocated out of mobile service into hardware; so that's that ongoing impact as we transition. And the second impact is with some of our add-ons, for example our upgrade and protect product that we sell to customers. We are now recognising that on a net margin basis through the revenue line rather than gross. So that's the \$1.50.

What happens in the second half? In the second half the impacts from the transitioning of customers to our new plans, that will ease a little bit on a PCP basis. So we've seen \$1.50 overall across those two broad impacts in the first half. I still expect a reasonable size impact, but it will be, I expect, a little bit under the \$1.50 as we get into the second half on a PCP basis. And, Andy, no further comments on InfraCo Fixed; I think you covered that well. And I'll hand across to David.

David Burns: Thanks, Vicki. Kane, your question about continued growth in the second half: I'll make a couple of comments, but my opening answer is yes, I do expect to see us continue staying in a growth position at top and bottom line in the second half. Vicki and Andy have outlined we have strong performance in the mobility sector, and I would expect that to continue through the remainder of '22 and into '23.

Our NAS business and where we've built on our professional and managed services security, IoT, etc continues to grow. We know we have some headwinds around calling applications and legacy systems that are in that portfolio. Vicki also highlighted that whilst we are being highly competitive in the fixed network space and retaining our T Fibre SIOs, we'll continue that battle in the marketplace; it is being disrupted and it's important that we retain our T Fibre SIOs which we're focused on.

And our international business, particularly around its wholesale business, is performing extremely well. So I do expect those positives to outweigh the challenges that we have in the portfolio, and I do expect that the portfolio will continue to grow at top and bottom line in the second half as we have called.

Nathan Burley: Thank you, David, and thanks Kane. Our next question is from Darren Leung from Macquarie.

Darren Leung: Thank you guys. Just two from me. One was just to clarify on that ARPU piece; so it sounds like your underlying ARPU should still be going up, but we just won't see it in the reported number in the second half. Just to confirm that, please.

And then the second one is, on your NAS revenue CAGR to FY25, I think that's old, but is the mid-teens margin still FY23 or is it FY25 now? And then the flow through on that, just I've noticed you've kept your FY23 ambitions – given the delay, or I suppose the smaller than expected digitisation in the fixed business, can you give us a feel for what's backfilling the change there, please?

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

Vicki Brady: Yes, absolutely. And thanks, Darren, for those questions. So yes, just on ARPU: yes, I wanted to highlight those accounting impacts because as we get into the second half, yes, underlying ARPU we're still seeing growth, but those accounting impacts we expect to offset it. So that was spot on; so how you're thinking about that is exactly what I was trying to communicate through the presentation.

In terms of NAS, yes, so just to be clear on NAS – we are targeting to get to mid-teens NAS margins by FY25 including the internal infrastructure charges. And so I did just want to talk to this for a little bit. Our prior target was on the basis before we did the restatement to bring the internal infrastructure charges in, so we are maintaining mid-teens with the internal infrastructure charges included and that's now a target to get to by FY25.

I spoke about first half of this year, our NAS EBITDA margin excluding internal infrastructure charges was 11%, including them was 8%. So it had about a 3 percentage point impact in terms of our impact on margin. And so we're targeting for this financial year to get to 13% excluding them. And then yes, we've still got that ambition to get to mid-teens NAS margin.

And then on NBN, yes we're – as I've talked to – the move of customers to the new digital stack is tracking just a bit behind where we had hoped to be, but overall – obviously as we set guidance and we look at growth in the business – we will always be managing – things don't always go exactly to plan as much as we would love them to. And so yes, we've been able to pick up in other areas and still get the outcomes we needed overall for Telstra.

So for example, obviously we're on track on our productivity target – delivering the \$254 million of cost-out – so on track to get to \$430 million for the full year. So when we face something like this, absolutely we look to pick it up in other areas, and obviously overall on underlying EBITDA mobile is performing well, and obviously the key contributor to that underlying EBITDA growth in the half. So, Nathan, back to you.

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

Tom Beadle: Hi guys. Thanks for the opportunity to ask questions. I've got three as well, please. Just firstly another one on inflation; are you seeing any pressure in your cost base today – and I realise your T25 targets include productivity gains that are net of inflation – but what are you assuming there around underlying inflation and how sensitive are those assumptions to higher than expected inflation, and do you have any strategy just ready to roll out to offset your higher than expected inflation with price increases?

Second question around your mobile customer numbers; you touched on the population decline as impacting earlier, but have you done any work around this impact of lower net migration and fewer visa holders, and how that might have impacted your subscriber numbers? For example, TPG's spoken about the number of customers they've lost with international IDs – just so we can try and quantify the opportunity there once borders fully reopen.

And then just finally on residential fixed wireless, TPG and Optus both have some fairly competitive 4G and 5G home broadband products out there when you compare them with NBN plans, so can you provide an update there on your on-net fixed wireless strategy, and to what extent are you pushing these plans below the line, and what sort of take-up are you seeing? Thanks.

Andrew Penn: Thanks very much, Tom. Yes, look, a couple of responses. Firstly in relation to inflation, obviously we're experiencing the same dynamic that everybody else is in this regard, and I think wage inflation is probably the area of most immediate concern. I think at a practical level it hasn't flowed through yet, other than I would say in one area which is really in software engineering; and that's been more to do with our ability to source and maintain productivity in our digitisation program, which Vicki has spoken about a little bit as well. So it's obviously real, and I think more businesses are facing that. In terms of – it's not changing our outlook or our commitment in terms of productivity; our \$500 million net productivity target for the T25 initiative is unchanged. And of course also we're in pretty good shape to deliver the \$2.7 billion by the end of this financial year.

And then Vicki alluded to the fact that because we have made the changes – particularly in relation to our consumer and small business customer plans and we've simplified them – we have more than 80% of customers on them now – it means that our pricing strategies – and I'm not going to talk to what they are because that wouldn't be appropriate – but just in terms of mechanically, we're able to make changes much more efficiently, much more quickly and flow them through the base; whether those price changes are up or down or otherwise.

And the reason we put in the simplified plans in the first place is we just – on our own research – found that customers were just sick of telcos giving them plans where the pricing was confusing, they were locked into contracts, there was lots of additional charges, excess data charges, these types of things.

We've gone for a much more simplified model, and therefore any pricing changes that we would make we're well equipped to be able to do that in a similar fashion. I think on the mobile SIOs, pre-COVID I think I'm right in saying that Australia was enjoying a net population growth of sort of 150,000 to 200,000 people a year. That doesn't sound a lot, but in a market where we have 50% market share – or just a little bit south of 50% market share – if we acquire a proportional number of those customers, that's up to 100,000 net new SIOs in a year; so that is quite material. And my data and intel suggests that that net population has gone to more or less zero over the last couple of years.

Now, I think Michael's also spoken to our cohort of customers is slightly different to some of our competitors' – less dependent on student migration etc – but nonetheless, the broader comment remains the same.

On fixed wireless access – you've heard me talk about this many times – I can remember when 5G was first in the narrative and before it was launched, and used to get asked regularly whether 5G will replace NBN – and lots of people thought it would – and I've always made the point, "No, it won't." What it is though is it is a very good complementary technology which would be appropriate for a certain cohort of our customers who might be on other services that are not delivering them the sort of experience that we could deliver through a 5G fixed wireless.

And so one of the things that we've done is we've taken a very considered and measured approach to building a very sophisticated service quality tool. What

that means at a practical level is that before we make offers to customers which are predominantly below the line, before we do that, we are making sure that we're assessing that 5G technology is in fact the best technology for them, and in fact based on what their current experience is.

And so we are getting very strong interest in that, so when we do approach customers with that proposition there's a lot of interest in it; it's highly valuable. We have been dealing with a few stock constraints on modems as well, but I think over time it's going to be an important part of what we're doing; but, as I say, only for the right customers.

But look, with that said, I might hand over and see if Vicki or Michael wanted to add anything to what I said on inflation and mobile declines, etc – sorry, population impacting mobile.

Vicki Brady: I thought you covered it well, Andy, nothing else from me to add.

Michael Ackland: No, nothing from me, Andy. Thanks. I think you hit all the points.

Nathan Burley: OK, we will go to our next question then which is from Lucy Huang from B of A.

Lucy Huang: Thanks guys. I just have two quick questions. So firstly in relation to prepaid mobile, I think you guys mentioned that the quality of the business is improving, so just wondering if you can give us some colour as to how many consumers are now using that auto-recharge capability and what the trend has been? And then just second in relation to InfraCo Fixed, just wondering if you can give us some colour around what's left in that NBN commercial works line, so how much should we or could we expect to continue to come out of the business' as NBN commercial work start to taper off? Thanks.

Andrew Penn: Thanks Lucy. I'll get Michael to talk about the dynamics in prepaid, and I'll invite Brendon to make some comments on InfraCo Fixed and any comments he wants to add in relation to any of the questions that have already come up on InfraCo, but – Michael.

Michael Ackland: Yes, thanks Lucy. And yes, we have seen an increased uptake of auto-recharge, but also an increased uptake of active app users among our prepaid base, particularly as we've moved onto the new digital stack. And we're now, with prepaid, we're at 100% of our recharge and activation activity on that new digital stack, and so that is moving through the base, and we're also seeing that lift our average ARPU. I wouldn't say that it's a majority of customers, but we've seen a significant lift in the number of people moving onto auto-recharge, and I think it's largely driven by the improved experience and ease of being able to do that.

The other point there is we're seeing prepaid through Telstra Plus where people are linking all of their accounts – both their postpaid and prepaid – and that is improving, I think, the quality of our prepaid base as well. So thank you. Over to you, Brendon.

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- Brendon Riley: Yes, thanks very much, Michael, and thanks for the question, Lucy. We still have a little bit more to go in terms of the roll off from the NBN volumes, but we still have a pretty strong commercial and recoverable works business, so we've got a little bit more to go before we start to hit the bottom of the NBN declines. But once we get there, then we'd certainly – I'd certainly be expecting that we would have a modestly growing commercial and recoverable works business going forward.
- Nathan Burley: Excellent. Our next question is from Roger Samuel from Jefferies. Roger.
- Roger Samuel: I've got two questions as well. First one just on Digicel, just wondering if the business is still performing as you expected before, just given the recent natural disaster at Tonga, and has that impacted the business? And secondly on a mobile business, just wondering if you're still getting a lot of growth adds from the JB Hi-Fi channel, and if you're still running promotions, and what's going to be the impact on your mobile ARPU going forward? Thank you.
- Andrew Penn: Thanks very much, Roger. On Digicel, actually the business is continuing to perform well; in fact it's performing ahead of budget. And I think, as you know, the business includes operations in six markets including Papua New Guinea, Fiji, Vanuatu, Tonga, Samoa and Nauru. Tonga's – and I should say, by the way, obviously it was a very tragic natural disaster that impacted the people of Tonga, and it's a relief that there wasn't too much personal injury and loss of life – there was some, which is obviously very sad – but there's also been quite a significant impact on just in terms of there needing to be a clean-up with the ash that's fallen on the country.
- And so we have actually been providing quite a bit of support, both in terms of providing temporary satellite backup to Tonga – because one of the cables into Tonga was completely cut about 35 kilometres off the coast as a consequence of the eruption – and so we've provided both on the ground infrastructure to restore communications, and then also support through the Digicel Foundation which has been provided – we haven't actually completed the acquisition yet, but we've been working in partnership with the Digicel team to support them.
- Tonga's got a population of about 100,000 people, whereas Papua New Guinea is more like 9 million; so in the context of Digicel, Papua New Guinea is by far the biggest business. So whilst the events are obviously very concerning in Tonga for the Tongan people, in terms of its impact on Digicel it's relatively small. But obviously we want to do everything that we can to help. And sorry I'm now ...
- Nathan Burley: JB Hi-Fi.
- Andrew Penn: JB Hi-Fi, sorry, was the second part of your question. I might hand that over to Michael.
- Michael Ackland: Yes, thanks Andy, and thanks for the question. Yes, JB Hi-Fi continues to perform incredibly well for us. We have done a lot of work on how we've structured the offers and the way that we compete in-market, and have lifted our TMMC on JB Hi-Fi over the last 24 months pretty significantly. And I

would say it's doing the job that we need to do it; and it's doing it at great value. And we look at our book on JB Hi-Fi and the way that it's performing over time, it's delivering good ARPU outcomes as well. Thank you.

Roger Samuel: OK, thank you.

Nathan Burley: We've got a few more analyst questions and then we'll go to media. So just a reminder, if you're media on the call and you'd like to ask a question, please press star one. Our next question is from Brian Han from Morningstar. Brian.

Brian Han: Thanks. Two questions if I may. In mobile, after adjusting for the infrastructure cost allocation, can you please give us an idea as to what the mobile EBITDA margin would have been a couple of years ago when it was at its lows, and discounting and competition were at their worst, and also what the margin would have been back in the heydays of 2016, around there?

And the second question was, I see the change in the timing of the mid-teens margin target for reselling NBN, but can you please talk about how high the overall margin for the whole fixed consumer and small business division can improve too, once all the legacy migrations and cost efficiencies are done? Thanks.

Andrew Penn: Thanks very much, Brian. Good question on the trend of the mobile margin, because you picked some interesting inflection points in the industry. Because certainly as an industry we saw mobile ARPUs increase between about 2011/12 through to 2016 off the back of the migration, if you like, and the launch of 4G which occurred in 2014. And then since 2016 we saw ARPUs at an industry level decline all the way through into – literally in the last sort of six to 12 months, and we starting to see that turn around.

But I'll get Vicki, she's probably closer to the actual numbers across that period than I am, or maybe have them to hand, so I'll ask her to respond to that.

And then on the NBN resell, really once everybody is fully migrated to the NBN – and as you might recall, under the government's policy NBN have an obligation to provide a fixed line NBN home broadband service to 92% of the population, and then for the final 8% of the population they provide that service – they have an obligation to provide a service, but that's not necessarily with a fixed line, and for that part of the population they're providing it via satellite and a fixed wireless solution.

Now with the 92%, customers are compulsorily obliged to transition across – so they have to – they're given 18 months once it becomes available in their area – and we are nearing the end of that particular transition. In the 8%, whilst NBN is obliged to provide a service via satellite or via fixed wireless, customers don't actually have to move off of their existing service; so we do continue to provide ADSL services on a wholesale and a retail basis as well as calls for standalone fixed line voice service in the last 8%. And you'll probably recall that we've said that our objective is to limit our losses essentially on that residual part of the network to – and Vicki will get the words precisely right for me – but around about \$100 million. And that is because, as you can

imagine, whilst it represents only 8% of the population, it doesn't necessarily represent 8% of the fixed infrastructure assets that we have to maintain and some of the techs and some of the services.

And of course, that 8% is in the more regional and rural and more remote which are, per capita, sort of higher services to maintain than elsewhere; which is hence why we make a net loss on it. And which goes a bit to contrary to a lot of people talk about the USO and USO reform and how Telstra receives \$300 million to provide those USO services – we don't actually, it's a bit less than \$300 million – and by the way, we pay \$100 million of that ourselves anyway, and we actually lose money on it – so we're not getting any particularly free win or benefit for that.

But one of the things you may have seen in the RTIRC report that was published on Monday, which the government is yet to respond to, is a strong recommendation for USO reform. That's something that we've been advocating, in fact going all the way back to 2015. Because it needs to be done on a much more technology agnostic basis, rather than continuing to essentially require investment in copper, which is a great technology, but it is an ageing technology.

So with that said, I might just hand over to Vicki and see if she's got any more colour to add on those mobile margins going back and adjusting for the infrastructure charge, and anything else to add on the mid-teens NBN and fixed profitability.

Vicki Brady:

Thanks, Andy, and thanks, Brian, for those questions. So just in terms of this half – so the mobile EBITDA margin we've reported – so it does include the internal infrastructure charges and we've reported obviously EBITDA of 41.8% in terms of that EBITDA margin. So when we restated with the infrastructure charges included, that had about a 4 percentage point impact on our mobile EBITDA margin.

Now the thing I would say when we're going back and comparing to where EBITDA margins were back many years at some of the high points in the industry, firstly at the moment we are seeing lower hardware revenues as a consequence of volumes being lower, with obviously the COVID restriction impacts on foot traffic into stores, and obviously supply constrains as well at the moment.

So that mix of revenue does play a part as well, Brian, so that's an important piece to keep in mind, because that's sitting lower at the moment; obviously the overall EBITDA percentage margin does look higher. If you go back historically – and I have been in the industry quite a long time – and yes, we did go through some points where we saw mobile EBITDA margins historically around that mid-40s range, and so, as we've talked about, we've had a very clear and consistent strategy under T22, and we've been executing on that, and you can see that very much translating into the mobile business both in terms of ARPUs, but also in terms of EBITDA margin. This is the half also where we have the final benefits of the transition of subsidy and lease plans flow in, but we would expect EBITDA margins to remain strong in the mobile

business.

Certainly, as I spoke about, you see that operating leverage as we grow service revenue in mobile, and we're continuing to drive productivity and take cost out of the business; you can see that translating. So, Brian, hopefully that gives you a little bit. Yes, the internal infrastructure charges do impact the EBITDA margin about 4%. It is a little tricky to go back and compare just given the makeup of revenue today to where it used to sit; obviously plans were very different in the market back many years ago when subsidies were obviously the core of the plans getting sold in the market.

And then just in terms of overall fixed margin longer run, we obviously – we've got the ambition on NBN resale which is clear. Andy spoke about some of the other components in the legacy copper business. Our goal is to limit those losses to around \$100 million per annum on average through the T25 period, and that does exclude the internal infrastructure charges. The other things I would put in your mind as you're looking longer run at the fixed C&SB business, obviously there's the NBN reseller margin improvement. I've spoken a little bit today that we do think fixed wireless access is an opportunity and we'll see that sort of scale up through FY23, so that is helpful in the overall fixed C&SB EBITDA margin.

And then finally, we do have an ambition under T25 as well to double the revenues from our business application services; so to small business customers selling in those applications and services. So that's another piece as you're looking at it. We haven't given a direct ambition on the overall C&SB fixed margin, but when you put those pieces together, you can probably, I think, come up with a reasonable picture of where the business is headed. Nathan, back to you.

Nathan Burley: Thank you, Vicki. Our last analyst question comes from Rod Sleath from Rimor. Go ahead, Rod.

Rod Sleath: Hi guys. Thanks very much for taking my questions. Just a couple, and they're kind of at the margin questions on potential future risk. The first is just, with relation to the Starlink satellite system which now seems to be up and running – and there seems to be some good reports coming through of performance for remote areas – and likewise your own contract with Viasat, just shows that satellite capacity to serve the market which didn't really exist – or almost didn't exist except for NBN's product – before, is increasing soon and quite dramatically. And I suppose intuitively it feels like that should only have an effect at the margin at remote locations, which could well be positive for results in terms of your costs serving those regions now, if the USO requirements change. But I'm just wondering, is there any risk that given the capacity that's going in there, that this could become more than just current remote rural regions and perhaps move more into towns and have more of a direct competitive influence on broadband supply and, in particular, perhaps places that would have otherwise taken 5G fixed wireless services? I guess that's the first part of the question.

And the second part of that question – which is looking further out – is, is there

a risk that these satellite systems can actually become much better at offering phone services rather than simply broadband services – and in particular, mobile services – in which case they'd become again more of a threat to your superior coverage versus competitors? I have a second question which is just – which maybe if you could answer that, maybe I can ask the second question after; is that OK?

Andrew Penn: Why don't you just get the second question out, Rod.

Rod Sleath: Yes, no problems. So it is coming back to this theoretical question of what happens in an inflationary market – and I'm going to narrow that inflationary market down and say, what happens in an inflationary market where product inflation is faster than wage inflation perhaps, and you've got consumers who are squeezed on discretionary spending – when you've got a product which is absolutely mainstream with its 50% share – but is mainstream with a 20% price premium over the competitors – in that sort of environment, how would you protect your market share?

Andrew Penn: Yes, no look, thanks very much Rod. Look just quickly, on that second part of the question – and I'll throw it to Vicki and Michael maybe to comment as well once I've commented on satellites – but I think in terms of differentiating, it has to be, I think, the same approach that we've always taken. All really that the last two years has shown is just the criticality of communications and the demand for bandwidth, demand for coverage, the demand for speed, the demand for resiliency, the demand for network quality has only increased. And so I accept your point on discretionary spend, but when it comes to discretionary spend people have to prioritise where they're going to spend, and I think telecommunication services is going to be high up in that list, and the quality of telecommunications services and the support that people get is going to be the key differentiating factor.

So we've talked a couple of times, and touched on this as well, as the ability or the simplicity with which we can make appropriate pricing changes, either up or down, as well. So I don't think I have too much more to add on that, but I'll ask Vicki to see if she or Michael would like to comment from a consumer point of view.

On satellites, it's a bit the same – I sort of mentioned this earlier, when 5G first came along everyone sort of said, "It's going to replace NBN," and I said, "No, it's not. What it's going to do is it's going to complement NBN." And I think I would say the same is the case with satellites. And if you think about the amount of demand for data and how it's increased and changed over time – when we launched 3G – which was back in the mid-2000s – 1% of all traffic on the network was data and 99% was voice.

Today, that is completely the opposite; it's far less than 1% is voice and far more than 99% is data. And data volumes have increased 3,000 times since the mid-2000s. And that's only going to continue as technology adoption increases and of course as files get bigger. With satellites, the main challenges with satellites is their proximity to Earth – so GEOSATs probably sit at about 35,000 kilometres away and LeoSats sit at anywhere between 800 and 2,000

kilometres away. And so the key thing about satellites is you've got to get the signal from Earth to the satellite and back, and that causes both – that's both a power challenge and it's a latency challenge. So for home broadband, the challenge could be mitigated by virtue of the fact that you've got an antenna on your home – or a satellite dish on your home – and that is directly powered and directly aimed at the satellite so you can get the signal and you've got the power to send that signal.

That's a much harder thing to do when it comes to handsets. And also you have to transmit that signal when you get to the ground anyway, which is part of what we're doing with the new Series 3 Geo Stationary Satellite System for Viasat; we're building all the ground infrastructure – not just, by the way, for Australia, but Australia is their ground station base from which they're going to project signals back into the rest of Asia.

So the point of saying all of that is you can see it absolutely as an alternative solution or another technology that can provide home broadband service. The latency point is an issue obviously on broadband, but it's also particularly an issue on voice – particularly for GEOSATs; LeoSats can potentially make a difference there as well.

But then also bear in mind, we're a reseller of NBN services which is the wholesale provider of broadband and, as we've been discussing numerous times it's come up during the conversation this morning, our NBN reseller margins are pretty thin and our losses that we make from essentially servicing that last 8% and USO reform. So I think the development of satellite is a great technology for us to maybe complement our existing technologies and address some of the services and some of the challenges that we face today; particularly servicing that last 8%.

The Starlink system is a go direct to customer system. It's pretty pricey – not to say it won't come down – but I think it's about a \$1,500 one-off cost and plus \$140 a month for the actual service. But that could come down and that does offer a service.

But like all technologies, it's subject to capacity constraints, and so in the early days of course people will get a better experience, but as that fills up it will require more satellites to go up. LeoSats tend to fall out of orbit pretty frequently – a maximum sort of lifespan of five years – so there's a lot of capex involved in relaunching rockets and relaunching satellites.

So look, I think the net net is, is that satellite is another interesting, innovative, complementary technology. We've just done a major deal in the next generation of GEOSATs, which I think puts us in a really good position to take advantage of that – whether that's for end customer services, back all emergency services, IoT, whole range of different use cases – and as I flagged when we did the Viasat announcement, we also have a number of plans in the LeoSat space as well; which I will talk more about in the coming period of time.

But with all of that said, I suppose the piece I didn't answer is, is it likely to

encroach more into metro and more sort of urban use cases? I can't see it doing that. I mean peri-urban – maybe. Peri-urban are sort of these locations which are quite close to city centres, but very, very difficult to serve from a fixed wireless and mobile perspective because of the topography and the low density of population; so that could be a role to play. But I think there's so much investment in mobile and fixed and other infrastructure that – which is much more proximate obviously to customers – where I think satellite is probably not going to be as efficient. But look, with all of that said, Vicki, any more comments from you on the inflationary point?

Vicki Brady: Yes, thanks Andy, and thanks, Rod, for that. So just under that inflationary scenario that you spoke about, just one thing to add. The price sensitive end of the market is an end of the market that obviously exists, and we've seen growth in that segment of the market over time. And what's important as we think about that is obviously our multi-brand strategy. So the Telstra brand: yes, operates at that premium and it remains very important to us and that's why we do have a multi-brand strategy in place. And our ability to compete through brands like Belong, or through our MVNOs in some of those more price sensitive parts of the market is an important part of underpinning how we compete.

So, Rod, that's one I would just add and, as Andy spoke to, certainly what we've seen with the Telstra premium – through COVID obviously connectivity matters more than ever and so maintaining that premium position with the Telstra brand and using our multi-brand strategy to compete as you think about the scenario you spoke about, obviously how we would execute would be again very much reliant on that multi-brand strategy and ensuring obviously we maintain that Telstra premium. Michael, I'm not sure if you wanted to add any comments to that?

Michael Ackland: Only one comment. I think the other one that is an important part of our strategy moving forward is how we differentiate based on the network experience, differentiate based on the kind of connectivity experiences people want to get, and we think they're going to expand. And while their affordability is always a challenge – and even more so in the scenario you described – I think the opportunity to deliver optimised experiences for people for their specific needs and their willingness to pay, can bring some structure into the market on the consumer side; in a way that data inclusions have in the past.

Nathan Burley: Thank you all. We'll close the investor and analyst question time there and we'll now move to media. So our first media question is from David Swan from The Australian. Go ahead, David.

Q&A - Media

David Swan: Thanks very much, and good chat as always guys. Got a couple of questions. Wanted to ask firstly from a consumer perspective, in this environment with inflation being what it is, can consumers be expecting to pay a bit more to go up to the postpaid plans in particular; is that something that will be riding over the next 12 months, will it be the same, what can you share there from a consumer's perspective?

And secondly, for Andy, was wondering if you can update us at all with regards to any succession planning for yourself – this is probably you're thinking about, or if there's anything you can just update us on with regards to yourself?

Andrew Penn: Thanks very much, David. And I don't know how much of the call that you've been on; obviously it wouldn't be appropriate for me to disclose any plans that we might have from a pricing perspective, and so we won't do that. I think all we can really say is that, yes, we know the inflationary pressures; they are real. I don't think we've felt the full weight of those significantly to date – but I guess all of the economic data and all the experts tend to point to it – and we will obviously do our best to try and make sure that we mitigate the impact of that on shareholders and also on customers. But we've made significant changes to really try and simplify our overall approach to pricing for customers so that if we do need to make price changes, we'll do it in a way which is simple and easy and hopefully mitigates the impact as much as possible.

I'm not sure I can say too much more than that, but I'm not sure if – I'll see if Vicki wants to say something.

Look, in terms of succession planning, what I can say is I am incredibly proud to work with a very, very capable team and I think your job as the CEO – regardless of your own plans – is to make sure that there is always succession within the team; save for getting knocked over by the proverbial bus tomorrow, that's always a risk, and so therefore it's a responsibility and I'm lucky to work with, I think, the most talented management team in the country and there's plenty of succession opportunities in there if I happen to – as I say – fall under that accidental bus. But in the meantime, I'm pretty happy doing what I'm doing. But, Vicki, anything more in inflation?

Vicki Brady: The only thing I'd add – and David it's a great question – is I just think as you look at where we've moved to in our plans that we offer to our consumer and small business customers, they do have flexibility, so they're not locked in. So as their needs change, maybe as their budget changes, they do have the ability to obvious change plans to suit their needs. And we do compete in market with a multi-brand strategy; so the likes of Belong obviously plays an important part, along with our MVNO. So I'd just add those couple of points, Andy.

Andrew Penn: Thanks, David.

Nathan Burley: Thanks, David. Our next question is from Zoe Samios from Fairfax.

Zoe Samios: Morning guys. Thanks for the presentation today. Just two from me: one, Andy, I'm just wondering if there's anything you can say around how you'd expect consumer confidence to be in the lead-up to the federal election – I know there are other sectors that are expecting things to slow just as we get towards, I think it will be May. And secondly, I just wanted to ask you about staff shortages: is that an issue for you, where are you seeing it if so, and do you think it will be a problem in future?

Andrew Penn: I think, Zoe, just on the second one first – in terms of our turnover, we've had

really good retention and our employee engagement is increasing, as I've mentioned. So I think we're in a really good place, we're attracting people to Telstra and we're retaining people to Telstra, some really good talent, so we're in a good place in that regard.

I think the one area where I have noted that we have seen some impact is mainly through third party contracts where have been – particularly where we've used those for IT development, particularly around the digitisation program – there's no doubt that demand for software, software engineers, specialists in those key areas, has been increasing and that's been challenging. So that has impacted our digitisation delivery a little bit.

But look, I still back us as an employer of choice, and as we announced last year, one of the platforms of our T22/T25 strategy is to be the place you want to work by adopting new ways of working by really doubling down on hybrid ways of working, supporting our people, and also by working in a way which develops a digital leadership, digital first approach. And that all, I think, is going to help us well on a relative basis.

And then in terms of consumer confidence, I think these things are always harder to answer – I'm not a pollster or I don't have an empirical evidence on these things. I think the biggest thing candidly that has really affected activity and operating dynamics for us over the last period of time has been the various different impacts of COVID on our ability to keep our stores open and to have that retail presence.

And that's either been as a consequence of guidelines from state governments that we can't have stores open, and/or it's been as a consequence of people that have been impacted by COVID; they've either contracted COVID themselves or they're caring for somebody with COVID or they're needing to self-isolate, and that has had an impact over the last six months or so – or maybe three months or so, since Omicron has sort of escalated – and at times we've had probably up to 40 or 50 stores which we've either had to have on reduced hours or close completely for a short period of time. So I think probably that's all I could say and I figure, hopefully, we're coming out of that now – but to me, looking at it through our lens, that's been the biggest dynamic that's been going on for consumers.

Zoe Samios: OK, thank you.

Nathan Burley: Thanks, Zoe. Our next question is from John Durie from The Australian. John.

John Durie: Hi Andy. Two clarifications if I could. Firstly around Health, you talked about 9% growth there, and it's in the other category which I think was \$330 million in revenue, or thereabouts, in the half – I just wondered how much of that would be Health?

The second one was around energy, you talked about how the Victorian regulator had given you clearance and you were doing trials. I wondered whether you could give us a bit more colour about when you think you'll be able to rollout the product and what will it be and likewise?

Andrew Penn: Hi John, great to hear from you and thanks very much. On energy, yes it was 9% growth on an organic basis, and 37% if we include the acquisitions that we announced middle of last year and we completed in the half. Vicki, can you remind me if we separated out our Health revenues; I can't remember?

Vicki Brady: We don't separate them out, Andy, but we have talked to – at the last investor day – what the Health business' revenue overall was. And just to John's question, it was a little over \$100 million revenue in the half.

Andrew Penn: Yes, and we're predicting high-teens revenue growth for the year, John, so you can imagine therefore that's over a couple of hundred million. And you might recall that when we announced our T25 strategy in September of last year, we also set our aspiration to get that to a half a billion of revenue by 2025, and we had a good milestone on that with the signing of the 1800 RESPECT contract a couple of weeks ago – which is a \$200 million contract over five years – so well on our way there.

And then on energy, basically the product is a retail reseller energy product backed with a green sort of renewable energy commitment, and it will be basically made available obviously to Telstra customers; we are looking to incorporate it into our Telstra Plus program as well. And of course we'll all be backed with smart meters – I mentioned the Intellihub deal that we've done more broadly – but obviously smart meters have been a requirement in Victoria for some years but not outside of Victoria – so that's another feature of it.

And over time we're looking at also how we can link that with our modem in-house so we can provide some really interesting data and some tools for customers to really optimise and manage their energy products. At the moment, as I say, getting the licences took a bit longer than we had hoped or planned, but we have them in all states now. We're currently trialling with customers, and between now and the end of the calendar year we will be ramping up the retail offering.

So Michael Ackland's on the line; I don't know, Michael, if you have any more comments about when we might be going above the line at scale on energy – it will obviously be delivered through Michael's business.

Michael Ackland: Yes, no I think you've covered it, Andy. We'll be ramping up as we exit this financial year and into the next one and it's a really exciting retail product; it will be fully integrated in terms of how customers can get access to information through our My Telstra app, and some of those things that you talked about in terms of the opportunities with the smart meter and the smart modem, and how we can innovate around that over time, I think, is very exciting. But we would be looking to ramp and above the line as we exit this financial year and into the next one.

Andrew Penn: And I think that's the point, John, is that one of the things that we – which made us take longer than we might have otherwise done – is we could have built this on the side and that probably would have enabled us to go more quickly, and sometimes it's appropriate to do that. But on this service, there's so much

synergy from our perspective, and also from a customer's perspective, between having a home energy service and then also a home broadband service, is that we have built it on the new digital stack and the new digital technology that we had been building, including, as Michael said, My Telstra, so it's a much more integrated solution for our customers.

Nathan Burley: Thanks John. Thanks Andy.

John Durie: Just one quick follow-up – which company will you be reselling?

Andrew Penn: Well we won't be necessarily reselling any one company, but we will be packaging – because we have a number of our own power agreements we – you might recall we backed wind farms in Queensland and also solar farms in Queensland and also in New South Wales, so we will basically have a wholesale arrangement which enables us to provide an accredited, essentially green energy solution through to our customers.

John Durie: Great, thank you.

Andrew Penn: Thanks John.

Nathan Burley: Quick reminder, if you have any questions, press star one. Our next question is from Richard Chirgwin from IT News. Richard.

Richard Chirgwin: Greetings, and thanks for the presentation. Just got three questions: one relating to NBN, one relating to the digitisation, and one relating to satellites. On the NBN, basically what's the likely impact on Telstra of the proposed changes to the CVC structure that nbn co's talking about, and what's your sensitivity to future changes to the special access undertaking? Regarding digitisation, we've talked a lot today about the My Telstra app; what other components of digitisation are there and what's the total investment in that? And finally, can Telstra discuss what it's interest in future LeoSats might be?

Andrew Penn: Thanks very much, Richard. Look, on the last one, I mentioned in an earlier question that we will be talking more about some initiatives we have in the LeoSat space in the coming short period of time; so you will hear more from us on that. But look, suffice to say, I think satellites and LeoSat have a number of interesting use cases; there's obviously the provision of just straightforward broadband services to customers – and NBN already offers one in Sky Muster, Starlink offers one – Sky Muster is a GEOSAT, Starlink is a LeoSat – Viasat offer them globally through GEOSATs, there are other options – so that's one area of potential use case.

But then there's lots of others; so there's IoT – particularly for regional and rural cases, so where farmers are wanting to use digitally enabled farm engineering equipment, tractors, combines, headers, irrigators, fertilisers etc, etc – that can be problematic because not necessarily every paddock has got coverage, whereas so LeoSats can play a role there.

Also backhaul – we use satellite a lot for backhaul, particularly where we can't run fibre – so that's another use case. Emergency service is another use case.

So we're doing quite a lot of work at the moment; and as I say, I'll talk more about it in the coming period.

On digitisation, essentially we have – both for our consumer and small business business, and for our Enterprise business – if you think about everything above the layer of the network – so that is how we engage with our customers digitally – whether it's through the app or through a website, and also then through to our CRM systems, our customer relationship management system where we have all of our customer data and which all of our agents use, and then that goes through to our provisioning systems and also our billing systems.

That whole environment is what we have been basically upgrading and replacing, and we have invested – well we announced in 2016 a \$3 billion incremental capex spend across networks and digitisation, and we have been continuing to invest since then. So I would say it's close – it's between \$1.5 and \$2 billion over the last several years that we've invested in that, and we are now at the tail end of that and we're looking in very, very good shape in terms of getting the benefits of it. And the NPS and the responses from our customers are just transformationally different than when they were operating in our legacy environment; so that's really good.

On the NBN one, the process for the NBN at the moment is that the ACCC is going through a process of reviewing the pricing structure, and also essentially connected with that is the special access undertaking; so there have not been any decisions or any changes that have been communicated so I can't comment specifically on what the sensitivity to us is.

But like all RSPs, we're keenly interested to see what the results of that review are. I think it's a once in a 20 year opportunity to really get the settings for the future. There's obviously a model that's been used over the last 10 years – and that served a purpose – but I think as we look forward into the digital future, obviously we want an infrastructure or rather a framework for the special access undertaking and pricing that's going to work for everybody; work for NBN, work for the RSPs and work for end customers, and we're keen to see how that plays out.

But I think the one thing I would say is that all of the retail industry doesn't really provide services or price services on the basis of how much data people use anymore – there aren't any excess data charges really anymore – and so the wholesale price and retail price are out of sync at the moment, and that is a bit of a structural problem and one which we hope gets addressed through the review.

Nathan Burley: Thank you, Andy. Our last question comes from Lucas Baird from The AFR.

Lucas Baird: Hi guys, how you going? Just two from me. I was wondering with the federal election coming up, what policy issues do you want to see tackled by the major parties going into that, and what would you like to see out of their – any commitments to telco infrastructure or anything like that? And then secondly, I was wondering whether you're concerned about any increased competitive threats to the Enterprise business with Optus hiring Gladys Berejiklian the

other week, apparently to try and take the sort of share of government contracts that you guys have traditionally dominated up until this point?

Andrew Penn: Thanks very much, Lucas. Look on the federal election, I think – I was just saying in response to Richard’s question, we were talking a bit about obviously the NBN policy – but that whole die has been cast and the ACCC are doing a review on the special access undertaking at the moment. I think the most important thing – and I’ve said this previously when I chaired the Business Council of Australia’s Committee on input to the digital economy work that the government has been working on – is we need to think about telecommunications infrastructure and things like cloud infrastructure as key enablers to a broader aspiration of the government for Australia to be a world-leading digital economy by 2030. And then how that manifests itself, and I think related to the NBN, is that ultimately if we can all fulfil that aspiration and for Australia to be a world-leading digital economy, the dividend from that, from a productivity point of view to the country and the nation, is huge. And so therefore getting the policy around the infrastructure is incredibly important.

So a couple of things that come out of that: one is the structure of pricing between wholesale and retail – and also the service obligations between wholesale and retail – need to be better aligned; and that work is underway. But the other thing is to look towards making policy that is much more technology agnostic – and also provider agnostic for that matter as well. So historically a lot of telecommunications policy has been, if you like, organised around copper, and/or the particular nature of the service or broadband being fixed, and/or whether it’s wireless. Whereas actually from a practical point of view as an operator, I want the ability to use the best technologies and change those over time and have flexibility around that – whether it’s satellite, GEO, Leo, 5G, fibre, whatever it may be – I want to be able to use those to deliver a solution to a customer who ultimately doesn’t care how they’re actually getting the signal in the end; what they care about is whether they’re getting it.

And at the moment, the legislative and the regulatory environment is a bit too sort of silo orientated around technological, and so no more is that the case; good example is in relation to the USO. The other thing I would say is that it needs to be much more agnostic against a provider. So if you think about the types of services a telco provides, those services are now provided by other types of providers. So if you think about SMS messaging, it’s not very different than an iMessage on an Apple phone or a WhatsApp message, or even a voice service that we may provide – there’s lots of alternative voice services that you can use on apps such as Signal and – can’t remember the – Viber or whatever it is, I can’t quite remember the name of the other one – but there are a lot of universal type service obligations that are imposed on telcos as carriers that are regulated, but not actually imposed on any of those other providers. And I think therefore it’s important that we actually harmonise the regulatory impositions so that everybody is playing on a level playing field.

So they would be the big macro points from a federal sort of – from a national policy point of view, to try and make sure we’ve got the best infrastructure to support a digital economy.

And then on your point about Gladys Berejiklian's appointment at one of our competitors, all I would say is I wish her the very best. She's obviously a very experienced and very capable leader, and I'm sure that they'll continue to be a very – a competitor – a very respected competitor that we deal with in the market. We've got very, very strong enterprise and government business – we just signed a major contract with Department of Defence, we've done a lot with the Departments of Educations across all of the states over the last 12 months, and we will continue to be a very, very significant provider to government and enterprise – and we just wish Gladys all the best in her new role.

Nathan Burley: Great, thank you. And that was our last question so our question and answer time has come to an end. But before we close, I'll hand over to Andy for any final remarks.

Andrew Penn: Well I think look, just for me, thank you everybody as always for hooking in. As I say, a little bit of a shame to do this one virtually again; I guess we'll probably do most of them at least partially virtually in the future, but I do hope I'll also get to see some of you face to face in the near future. We just appreciate your interest and your commitment and your availability to be here with us virtually today, so thank you and wish you all the best for the coming period of time before we catch up again.

Nathan Burley: Thank you.