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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript – Telstra updated FY20 guidance for NBN Co's Corporate Plan 2020

In accordance with the Listing Rules, I enclose for release to the market:

a) copy of the transcript from the conference call held on Monday 2 September in relation to Telstra's updated FY20 guidance for NBN Co's Corporate Plan 2020; and

b) "nbn impact on EBITDA" presentation slide.

Yours faithfully

Sue Laver
Company Secretary

Telstra updates FY20 guidance for NBN Co's Corporate Plan 2020, 2 September – Transcript

[Start of recorded material 10:30:13]

Michael: Thank you for waiting everyone and welcome to today's Telstra announcement. I'll hand you over to Ross Moffat.

Ross Moffat: Good morning everyone, Ross Moffat here from Investor Relations. Welcome to the market call for our ASX announcement this morning on revised Telstra FY20 guidance for the FY20 NBN Corporate Plan. Note we will not be providing a trading update on this call, and with that I will hand over to Andy for a few opening comments.

Andy Penn: Yeah, thanks very much Ross. Not too much from me because I'm going to let Vicki take you through the changes. But I mean essentially as we announced on Friday following NBN's release of their 2020 Corporate Plan, obviously the slow down in the number of activations of homes that were intended to be connected in FY20 from 2 million to 1.5 million – which is obviously a 25% reduction – is relatively material in the scheme of obviously the various different financial impacts that the NBN has on our economics. And so, as Ross said, the purpose of today's call is to give you the opportunity to hear from Vicki just in terms of how that flows through our financials and in particular how it flows through guidance. As Ross said, given we only had results a couple of weeks ago or so now we won't be taking any questions on trading or post 30 June trading performance and market dynamics. We really just want to keep this focused on updating guidance in relation to that release of the NBN Corporate Plan for 2020. So without stealing any more of Vicki's thunder why don't I hand over to you, Vicki, and you can take the market through how that flows through and impacts our guidance.

Vicki Brady: Thanks Andy for that – and I might start exactly where you've just finished off. So as everyone would've seen in NBN's updated 2020 Corporate Plan that they issued to the market on Friday, as Andy just mentioned the forecasted number of premises to be connected in FY20 reduced from 2 million down to 1.5 million. That 500k reduction in the number of forecasted premises to be connected is split – 400,000 less Brownfield premises, and 100,000 less Greenfield premises to be connected in FY20.

Now the most significant and material impact for our guidance is the shift in the 400,000 Brownfield premises that are now no longer forecast to be connected in FY20. I just want to reinforce it is only the changes in the NBN Corporate Plan that are impacting the updated guidance numbers that we have issued this morning. There are no other underlying changes in our assumption. It is purely the NBN Corporate Plan shift, and in particular those Brownfield reduction in connected premises forecast for FY20.

It does have a material impact when you look at our guidance and you will see in the table we have issued in our market release this morning that it impacts total income, it impacts underlying EBITDA, and the amount of the included in-year NBN headwind. It effects the net one-off DA receipts less the NBN cost to connect, and it impacts our free cashflow after operating lease payments. I would also call out not a guidance metric but it is a number we have communicated to market. It also impacts our cost out target which we had communicated as $660 million for FY20 – it shifts that to $630 million.

I do want to reinforce – and I know there have been some questions this morning – we definitely confirm that in line with what we communicated on 15 August with our FY20 guidance, that underlying EBITDA excluding the in-year NBN headwind is still expected to grow by up to $500 million in FY20. When you look at our shift in our guidance ranges you will see that underlying EBITDA, our shift in our guidance range is positive $0.1 billion. Yet the included in-year NBN headwind shift is minus $0.2 billion. The only reason those two numbers diverge is because of rounding. So I did want to reinforce that.

The other thing we will issue as part of the transcript to this call, you may recall in my CFO slides that I communicated to market on 15 August I had a page titled NBN impact on EBITDA that detailed the NBN impact we were estimating by category. And if I look at the FY20 estimates, on 15 August it was estimated the NBN in-year headwind would be $0.8 to 1 billion. That range is now $0.6 to 0.8 billion. The $200 million movement is $100 million in network payments to NBN, and a $100 million in wholesale legacy earnings decline. So we will issue an updated version of that page showing the FY20 estimates adjusted.

Nothing else in terms of our estimated total impact of the recurring headwind that we have already incurred from FY16 to FY19 of $1.7 billion. That remains unchanged and we are still of the view we are around 50% of the way through the NBN headwind. So with those comments, Ross, I might end there and pass over to Q&A.

Ross Moffat: Thanks Vicki and Andy. Michael can we move to Q&A now please?

Michael: Thank you – we only have two questions at the moment. The first one is from Eric Choi from UBS.

Eric Choi: Hey guys. Thanks for the questions – I just have three. The first one is I think you previously guided to underlying ROIC growth from FY20 to FY22 but I guess now that FY21 is the peak NBN headwind year just wondering if we still think that's the case? And then second question, just around the other aspect of the NBN Corporate Plan, I guess them baking in $1.2 billion of long term business revenues now – does that change your thinking on your total NBN headwind at all? And then just the last question, I think Vicki you just called out that the reduction in legacy access network cost component of the recurring NBN impacts wouldn't be impacted. So just confirming that that $30 million doesn't actually come out of legacy access network, it comes out of other cost out. Thanks.

Andy Penn: Eric it's Andy. Can I just clarify that middle question, the total NBN headwind?

Eric Choi: Yeah, sorry it might be a bit of a stupid question. But I guess NBN is guiding to $1.2 billion of long term business revenues now. I think previously they had only guided to about $1 billion – I don't know if you had already factored that into your thinking.

Andy Penn: Got it, ok. Well I don't think that would materially affect the NBN headwind that we're sort of disclosing for FY20 or necessarily materially – I mean we already sort of factored in the impact in relation to the longer term NBN headwind when we provided our results update in relation to I guess the progression of NBN into the enterprise sector. So I think the answer to that one is it doesn't have a material – sorry, it's a material point but I don't think it materially affects the numbers that we're sort of articulating today because we have already factored – I'm not sure the exact number – but the concept of that happening. But Vicki, are you able to comment on the costs and then the ROIC point?

Vicki Brady: Yeah, I'll take the cost point first. So the $30 million reduction in cost out is purely related to the NBN impact and what it relates to is that cost out that we have attributed to NBN is the very direct cost of field force activation and assurance. And so by customers, legacy customers, more of those staying on our network, our legacy network in FY20 than we had originally forecast based on the prior NBN Corporate Plan, it means that there is $30 million of cost out that will not occur in FY20 that shifts out into future years given those customers move across to NBN later. So it is purely related to the shift in the NBN and it is those direct costs associated with our field force for activation and assurance on our legacy network.

The first question, I just want to make sure I've understood it. The question was related to ROIC and it was a question of we had already flagged that in FY20 ROIC would not increase and partly that was due to the bigger headwind. You are right – the headwind now moves to the right so the peak year is now likely to be FY21 instead of FY20. So I'm just checking that was the question in relation to ROIC – is that correct?

Eric Choi: Yeah, because previously we were guiding for underlying ROIC growth from FY20 to FY22 – will that still be the case I guess given FY21?

Vicki Brady: And to be honest it's probably one we need to take and have a look at. I have not been back through all of our ROIC calculations – we sort of worked over the weekend to get guidance updated so we could issue it this morning. So that might be one we take on notice and need to come back to the market on.

Eric Choi: Ok, thanks guys.

Andy Penn: I think though suffice to say Eric, as Vicki said, the only changes that we're making to our outlook is into the guidance. So we're not flagging any other changes, we're just flagging the changes that arise purely out of the revised NBN Corporate Plan. But we'll work through the maths of that to your point on ROIC.

Eric Choi: Got it, thank you.

Michael: The next question we have is from Kane Hannan from Goldman Sachs – go ahead.

Kane Hannan: Morning guys, just a couple from me as well please. Just the main – the one-off NBN EBITDA reduction, sort of $300 million looks to be basically what NBN reduce their subscriber payments by in FY20. So just interested why that is the same quantum for you guys given I would've thought Optus would've received some of those payments and then your number is a 75% margin roughly? And then secondly just in terms of the full year, you commented that there were $3 billion roughly remaining of one-off

NBN EBITDA remaining. Just given they've reduced their Brownfield activations in totality, just confirming that that $3 billion number still is the same here. Cheers.

Vicki Brady: Ok, Andy I might jump in and take that. So if I take the final question first, the Brownfields question, yes we have noticed that there are obviously – even by the end of FY23 – there's 100,000 less Brownfield activations. Obviously it will depend on a few things but we don't think it has a material impact at this point on our outlook of the approximate $3 billion of pre-tax net one-offs that we are still to receive. So we don't think there's a material impact there.

And then your first question – sorry.

Kane Hannan: Just around the subscriber payment number they changed by $300 million – I mean I'm not sure if it's a rounding thing but I'm just surprised the quantum of your reduction is basically the same as what they have reduced it by despite Optus potentially being in there as well.

Vicki Brady: I can't comment on how they've calculated theirs but I can certainly say we have taken the shift in the activations flowed through our market share to get to our estimate. So perhaps rounding is playing a part. I'm unsure, I haven't looked at – I obviously don't know all of their assumptions behind theirs, but can certainly assure you ours reflects our market share of the reduction in the activations forecast.

Kane Hannan: And then in terms of – comment on why the range is still relatively wide given we have the 2020 Corporate Plan, and it's potentially a more achievable target given it's a fair bit lower than it used to be.

Vicki Brady: Yeah, we decided that the range was probably still at the right level given a lot of things can impact operationally during the year – the volume and rate of take-up. So we've held the range consistent with our range that we issued on 15 August.

Andy Penn: But I don't think Kane, it's not a comment on cost to connect or numbers that are in our control. It's just as Vicki said, it's just basically saying that: well there's the range and if they move away from their plan then obviously it's going to be different than the central point in their plan. Now how much they may or may not move away from it it's hard to know. Obviously HFC was an issue for the roll out last year and lead to a reasonably material number of activations less than was originally planned. So I guess we're just acknowledging that that continues to be one of the dynamics with the roll out.

Kane Hannan: Cheers guys.

Michael: The next question we have is from Brian Han from Morning Star – go ahead.

Brian Han: Andy sorry for the stupid question but whenever there's some slip-up in the NBN roll out or activation targets does that come as bad news for you because of the hit to NBN receipts? Or do you see it as one step closer to some sort of a restructure at NBN?

Andy Penn: Well I don't think it comes as bad news, I think it just is what it is, and so therefore it flows through. Ultimately one assumes that the NBN will fully roll out, the financial implications of it are quite material on Telstra and those financial implications happen in conjunction with the roll out. So if the roll out changes materially in any one year it's going to change the financial implications in any one year. But the broader dynamics of the NBN, the long term negative impact on Telstra, the long term PSAA receipts, they don't charge in a material way as a consequence of Friday's revised Corporate Plan – it's just more the timing of how that sort of flows through and impacts our financials in any particular year, and this one we're talking about is FY20.

There's a slight sort of additional comment to that, is that I think they are forecasting now that the total number of homes connected is about 100,000 less in the long term than was previously the case. I think it was 8.7 million in their previous plan – it's now 8.6 million. That's slightly unclear because they've also now extended the actual duration of the roll out period. It now actually goes into FY23 where it's previously finishing in FY22. So that 100,000 would mean it would get – potentially you would get 100,000 less PSAA payments. That sort of slightly depends on whether they disconnect first or not. But again, relatively immaterial in the scheme of it. So the net net is – I would say it's a relatively neutral impact over the longer term, but it has a material impact in FY20.

Brian Han: But in terms of the – a step closer to some sort of a restructure at NBN even if it's on price?

Andy Penn: Sorry, I'm not – what do you mean by restructure – sorry?

Brian Han: Well I think even the NBN CEO did say that because it is slower activation that they may look at the pricing dynamic and it could be referring to the current regime or it could be referring to something else, but do you see these kind of slip-ups as some sort of a catalyst?

Andy Penn: Oh look I think that's a question you should probably direct at NBN. I couldn't comment.

Brian Han: Thanks Andy.

Andy Penn: Thank you.

Michael: And the last question we have for now is Amelyn Foo from AIA Australia. Go ahead please.

Amelyn Foo: Hi, I was just wondering – you guys are pretty close to rating agencies' tolerances for the A3, A- rating. I was just wondering what the impact of this change is to your forecast metrics?

Andy Penn: Do you want to take that Vicki on the Balance Sheet side?

Vicki Brady: Yeah I can take that question. So these updated guidance numbers should have no impact on our credit metrics.

Amelyn Foo: Ok. So all things are good then?

Vicki Brady: Yeah, we would stay within the A band rating.

Amelyn Foo: Ok, thanks for that.

Andy Penn: Ok, I think Ross – I don't think there's any more questions Ross, I might hand back to you. Unless there's anybody else?

Ross Moffat: No, if you've got no more questions – look if you've got any further things you'd like to enquire over the course of today please feel free to call into the Investor Relations team – and good morning.

Andy Penn: Thank you.

Ross Moffat: Thanks Andy, thanks Vicki.

Andy Penn: Thanks everyone.

Vicki Brady: Thank you.

[End of recorded material 10:49:44]

nbn impact on EBITDA (updated Sep 2019)

As previously advised, nbn migration has a **net negative recurring headwind** on our business.

Recurring nbn headwind	FY16 - FY19	FY19	FY20 est.[1]
Recurring nbn DA	+$0.4b	+$0.1b	~+$0.1b
Reduction in legacy access network costs	+$0.3b	+$0.1b	~+$0.1b
Network payments to nbn	-$1.3b	-$0.4b	~ -$0.4b
Wholesale legacy earnings decline	-$0.6b	-$0.2b	~ -$0.2b
Retail decline **attributable to nbn** across Fixed & Data&IP	-$0.5b	-$0.2b	~ -$0.3b
Total recurring nbn headwind	**-$1.7b**	**-$0.6b**	**~ -$0.6b to -$0.8b**

As at end FY19, we estimate we have now absorbed around 50%[1] of the total headwind expected when migration to the nbn is complete.

In addition, there are **one-off impacts** of the nbn:

One-off nbn impact	FY13 – FY19	FY19	FY20 est.[1]
PSAA and ownership receipts for transitioning to nbn	+$7.0b	+$2.0b	
net one-off costs of migrating to the nbn	-$1.4b	-$0.4b	
Total net one-off nbn DA less net C2C	**+$5.6b**	**+$1.6b**	**$1.3b - $1.7b**

From 1 July 2019 until end of nbn migration, net one-off nbn DA forecast at ~$3b pre-tax.[1]

1. Impact based on management best estimates including key input of the nbn Corporate Plan 2020.