IT'S HOW WE CONNECT

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra signs revised NBN Definitive Agreements – analyst briefing transcript

In accordance with the Listing Rules, I attach a copy of the transcript of the analyst briefing and question and answer session, held on Sunday 14 December 2014, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

TRANSCRIPT
REVISED NBN AGREEMENTS
14 DECEMBER 2014

MR P. KOPANIDIS: Good afternoon and thank you for joining us for today's NBN-related conference call. My name is Peter Kopanidis and I'm the Head of Group Investor Relations at Telstra. Today's presenters will be our CEO, David Thodey; Andrew Penn, CFO and Group Executive International; and Tony Warren, Group Executive Corporate Affairs. Tony has been responsible for leading the NBN negotiations. Following today's presentation there will be a Q&A session. Today's teleconference including Q&A will be recorded and available on our website shortly. With that, I will hand over to David.

MR D. THODEY: Yes. Thanks, Peter, and good afternoon and welcome. Let me start with an apology. Actually, people used to teach me never to start a presentation with an apology but anyone who has to come and do a presentation Sunday – late on Sunday – I think you deserve a prize at least. So sorry about this but we had made an important announcement today and we wanted to, you know, update you. So sorry for disrupting your, you know, weekend before the last weekend before Christmas. Okay. So today we signed the revised definitive agreements with the NBN Co and the Government, which will enable the rollout of the Government's multi-technology mix National Broadband Network.

Now, what – the way we're going to do this, we've lodged a slide presentation with the ASX today and we're going to talk you through those 14 charts. I'm going to take you through 1 through 5. Andy is going to do 6 through 12. I will get Tony, who, as Peter said, has really led the negotiation, done a great job ..... and then I will come up and talk at the end. So we've pretty much lodged a summary of the main changes and a financial summary of our revised agreements, which is the same approach we took last time. In fact, as much as possible we're trying to be absolutely like-for-like in what we did with you, gee, back in June 2011 – it seems like just about an eternity ago. So let's get going.

So, firstly, on slide 2 you've got the normal disclaimers then slide 3, which is entitled Background to the Revised Agreements. As you know, it was back in June 2011 that we signed the original definitive agreements. They became unconditional following the shareholder approval in October 2011 and the ACCCs acceptance of our SSU in March '12. And since then we've been working under the definitive agreements. We've made, I think, good progress in meeting our commitments, you know, which was large, actually, because we had to build the transit network, you know, we had to get a whole lot of exchanges ready. So we've done a lot of good work there and I think we've achieved really everything we said we would.

But following last year's, you know, Federal Election the newly elected government determined that the design of the NBN would be modified to use, you know, what they call the multi-technology mix ..... range of technologies, so using copper-based fibre-to-the-node network and HFC instead of the previous government's predominantly fibre-to-the-premises approach, but remembering there was that fixed - wireless component and the satellite component as well. So that's what triggered the renegotiation, hence why we're here today.

Now, if you go to slide 4, which, you know, lays out what has been our approach to the renegotiation. And this should come as no surprise to you. We've really made it very clear from the start of the renegotiations that our number one objective was that we must be kept whole, meaning that the value Telstra expects to receive under renegotiated arrangements should not be materially different than under the original agreement. The government supported us in that principle. In fact, Malcolm Turnbull often says not a penny more nor a penny less and we agree with him. And I'm pleased to say to say we have achieved that goal. The estimated post-tax NPV which the revised agreement will deliver is equivalent on a like-for-like basis to the estimated post-tax NPV of the original agreement. And so, for ease of comparison the NPVs are in June 2010 dollars because we felt that was the only way we could really give you a proper comparison of how the deal has been constructed.

Now, I do want to stress the other key objectives for us during these negotiations were to preserve the protections for shareholders in the event of further changes to the NBN Project and to retain regulatory certainty. These objectives have also been met.

So if I turn now to slide number 5, which is entitled Enabling the MTM Model. Let me now take you through what we see as the main changes to the revised agreements, which have been necessary to enable the move to multi-technology mix NBN while, as you know, keeping shareholders whole. Now, I got asked today in the media release, you know, why is it taking so long. I do want to be very clear. It has been predominantly working through the new access technology. It is very complicated and that has been what we've spent most of the time working through, what are the implications of that.

But as you will see from the slide the considerations here are, number 1, the progressive transfer of relevant copper and HFC network assets to NBN Co as the NBN is rolled out. Number two, more flexible infrastructure use, which is simplified payment mechanisms. So anything we could do there to simplify the arrangements would be seen as a benefit for all parties. Number three, small modifications to Commonwealth agreements to enable the multi-technology mode mix but they were very small. And, of course, we wanted to get shareholder protections. Now, Andy and Tony are going to take you through this in a bit more detail so you can understand really the drivers and the implications. So, Andy, why don't I throw to you at this point?

MR A. PENN: Thanks, David, and good afternoon, everybody. I will just comment on how the changes to the agreements effectively sort of flow through from a financial valuation perspective and then I will pass over to Tony to talk about the important issues around shareholder protection.

So, as you will recall, the original agreements we identified three distinct value buckets. Firstly, the disconnection payments including the transfer of lead-in conduits. Secondly, the infrastructure access payments. That included the use of the transit network, exchange space, ducts and pits. And then, thirdly, the Commonwealth Agreements. And as I take you through each of these three buckets what you will see is the value that we – that accrues to each of them basically stays the same under the new agreements.

And if I turn first to slide 6, the discontinuation payments or – sorry – rather disconnection payments, as we forecasted in the Annual Report in August, the main changes to the approach is to Telstra's copper and HFC networks. Whereas you will recall under the original agreements we were required to progressively disconnect premises connected to copper and HFC broadband networks as the NBN was rolled out, which was – the effect of which was to render those assets obsolete other than for the use of our HFC to continue to carry Foxtel pay TV services, and our use of copper to carry services that couldn't yet be provided on fibre, or in locations not connected to NBN Co.

What you will see is, of course, under the revised agreements is there's no change to the disconnection process. We will continue to disconnect premises. However, where NBN Co uses the copper or HFC networks to deliver a NBN service Telstra will progressively transfer ownership as well – and this is an important part. As well as transferring ownership progressively we will also progressively transfer the operational and maintenance responsibilities for the relevant copper and HFC assets to NBN Co.

Now, importantly, the PSAA payment structure remains linked to the rollout of the NBN and there is no change to the per-unit rate that we receive for the PSAA payment. The transfer of ownership is triggered by NBN Co declaring an area as ready for service. Just before that time Telstra will transfer those network assets required by NBN Co to provide the NBN services using the copper and HFC networks. And we will retain the ability to continue to deliver Foxtel pay TV services through continued access to the HFC network on a value-neutral basis.

That goes to slide 7 and I will comment on the infrastructure payments. There has been no changes to our dark fibre commitments, our transit network commitments and no material change to access rack space commitments and as a consequence the payments for these, again, remains essentially the same. The key change in relation to infrastructure is that we're taking a far more flexible approach, which gives NBN Co flexibility to choose the technology it wishes to use in any particular region. We've negotiated reduced duct remediation obligations under this change as well. And NBN Co will now be responsible for remediation of ducts and pits in the fibre-to-the-node and HFC regions. And, further, we have also capped our remediation obligations within the FTTP regions.

In other words, we have transferred the majority of the responsibility for remediation to NBN Co. And in return for that we have also provided a credit relevant to the proportion of remediation responsibility we've passed over from the original budget that we set for remediation back in the original deal in 2010, when we did that math back then. We've also improved and simplified the agreements based on what we have learned working with the original agreements over the last three years. This includes removing some of the complexity in reporting processes and the payments are now much more simply linked to the rollout of NBN. And all of these changes together deliver an NPV value, as David said, equivalent to that compared to the original agreement.

Let me now go to slide 8, the Commonwealth Agreements, which is the last half or the last value bucket. The changes to the Commonwealth agreements are minor and are mainly to bring Telstra's obligations into line with the multi-technology mix. They also include learnings from delivery to date. And we've secured additional shareholder protections under the TUSMA agreement, which Tony will talk about shortly.

Can I take you now to slide 9? Under the original agreements we grouped the value, which I've just gone through, of the three components on this chart on slide 9 you should be familiar with. But I wanted to point out that this chart looks at the estimated value components under the revised agreement. And you will see that our estimate of the June 2010 post-tax net present value of the revised agreement is the same as the estimate under the original agreement. As we said earlier, we've stated the value in June 2010 NPV terms in order that we can actually facilitate a like-for-like comparison to the original agreement. And, of course, as with any long-term transaction, the numbers are approximate values based on our best estimate of the likely NPV of the long-term agreement and are subject to a range of dependencies and assumptions which is no different than that which was the case under the original agreement.

Turning to slide 10, let me summarise the value comparison for you. There has been no change to the revenue of the three components of the deal. And on the costs side we have agreed that NBN Co will reimburse our incremental costs directly related to the MTM rollout. So to the extent there are additional costs to us from the MTM rollout, NBN Co will reimburse those to us, other than those costs which we as a retail service provider would incur as other retail service providers would.

Slide 11 illustrates the payment profiles for the various components of the agreement. I won't go through it in detail but it's there to help you understand the payment structure a little better. And you will see it's largely consistent with the original agreement.

The chart is based on completion of the rollout by the end of 2010[1], which is consistent with NBN Co's strategic review report. It highlights the long-term nature of the contract and expected cash flow to Telstra under each of the component parts of value which I mentioned a little bit earlier.

So, in summary on page 12, what all this means is that we expect to have broadly similar cash flows from the NBN rollout. And, importantly, from a financial point of view, we continue to retain a natural hedge until NBN is fully rolled out. The disconnection payments help offset fixed line earnings decline. And we have long-term cash flows arising from the infrastructure-related payments. So I might now hand over to Tony, who will talk to you in the first instance about the shareholder protections. So thanks Tony.

MR WARREN: Thanks, Andy, and good afternoon everyone.

So go to slide 13 if you've got them in front of you there. As David said at the start, one of our goals was to ensure we had appropriate protections for our shareholders

[1] Corrected to 2020 later in transcript

and we believe we've achieved that with these revised set of agreements. We've retained the bulk of the protections that were in the original agreements and negotiated some new protections for shareholders in lieu of the protection that our continued ownership of the copper and HFC assets provided, given the revised agreements provide, as David and Andy have said, for the progressive transfer of those assets.

You will remember that under the original agreements, we had four main protections. First of all, the long term contractual obligations from NBN Co for certain infrastructure and there's no change there. Second, there was the termination amount of up to $500 million if the roll-out stops permanently, or is dramatically slowed after 20 per cent of premises are passed. This remains in place. However, under the revised agreements, we've also agreed to a new protection which entitles Telstra to seek compensation if the roll-out stops between 75 per cent and 92 per cent of premises passed.

The third protection, as with the original agreements, is that the Commonwealth policy commitments remain unchanged giving us that policy certainty. And there has been no change to the protection we had under the original agreements allowing Telstra to continue to generate earnings and cash flow from its ongoing operation of the copper and HFC networks where the NBN roll-out has not occurred; the so-called natural hedge. Now, in addition to the increased protection for cessation of roll-out, the fact that the agreements are now technology-neutral is a distinct benefit. It means that should the technology mix or choice change in the future, the agreements can accommodate these changes without needing to be renegotiated. These agreements are technology-agnostic.

The simplified payment structure for additional infrastructure payments that Andy mentioned earlier also provides us with additional certainty, particularly on the timing of the payments. We've also secured asset disposal restrictions which will give us protections in the event of any proposed sale of the HFC and copper networks during and after the roll-out of NBN. This includes, most importantly, restrictions on NBN Co's ability to dispose of these assets, particularly to large retail service providers, and gives Telstra the ability to appropriately protect our interests at that time. So from a protection perspective, we believe we are in a good position.

Like last time, the revised agreements remain subject to a number of conditions precedent. The two main CPs are ACCC approval of a revised migration plan and, like last time, tax rulings from the ATO. The migration plan needs to be varied to accommodate the multi-technology mix NBN. We will now work with the industry and the ACCC on the changes as the ACCC goes through its consultation process on the migration plan. We hope to have the conditions precedent satisfied in the first half of next year. It's also worth mentioning that we do not foresee any necessary changes to our structural separation undertaking. We will continue to meet this commitment through the progressive disconnection of premises and transfer of ownership of our copper and HFC networks to NBN Co over time. I will now hand back to David to conclude.

MR THODEY: Yes. Thanks, Tony. So, look, I just want to restate the revised agreements remain subject to a number of conditions precedent, however shareholder approval is not one of those. The Board has decided that no further shareholder approval is necessary, as the estimated value of the original agreements approved by shareholders in 2011 has been maintained and Telstra's existing commitment to structural separation remains. So the Board has deemed that, therefore, there's no further shareholder approval necessary at this time. But before we close for questions, I want to make the point that while this is, you know, a really important step from a business and customer perspective, this is largely business as usual for us.

Our focus, as always, is on our customers. The NBN will continue to be rolled out using a mix of technologies, now including fibre-to-the-node and HFC. We will continue to move our customers and compete to win new customers on the NBN as it becomes available, so, really, business as usual. So with that, thank you, and we're happy to take any questions and I think Peter or Nicola – Peter you are going to, you know, facilitate .....

MR PENN: And, Peter, I think I stuffed up. I think I said in relation to slide 12; that the chart was based on completion of the roll-out by 2010, which would have been somewhat optimistic. I did mean to say 2020, so my apologies.

MR THODEY: Okay. We will note that correction.

MR KOPANIDIS: Thank you. So, operator, can we have our first question, please.

FACILITATOR: Of course, Tony. Your first question comes from Sameer Chopra from Merrill Lynch. Go ahead, please.

MR S. CHOPRA: Right. Thanks. I have two questions. Firstly – by the way, congratulations on the deal. Two things; one, you know, around the ACCC conditions precedent, does that in any way slow down the construction of the fibre-to-the-node? Are you going to wait for the ACCC to sign off before you finish off on the pilot and undertake further work on fibre-to the node? And the second question, David, was around – fibre-to-the-node is a much faster deployment and I was wondering why wait 18 months after, you know, premises are ready for service before you receive payment? I would have presumed with the FTTN deployment, you know, it's ready for service the moment you hook up the DSLAM.

MR THODEY: Okay. Great, Sameer. So I will just take the first one and then I will go to Tony. So, look, in terms of ACCC conditions in terms of the FTTN, look, there isn't really a whole lot of consideration there. We've already picked up 1000 – you know, building 1000 nodes. It's really up to the NBN where they go there, but I think we would like to get the migration plan all tidied up with ACCC just as quickly as possible just because that has been the biggest risk.

MR WARREN: And on that, look, Sameer, we're hoping it doesn't hold it up. We've got the interim pilot process running, we've got a series of interim agreements in there. The objective is to get the ball rolling as quickly as possible. So whilst it's very important and it is a CP, because we do need this regulatory, you know, assessment and then hopefully regulatory certainty that it brings, I think everyone is really – including the Commission, I suspect – wanting to make sure that this happens expeditiously. The second point you made, Sameer, it is – well, it's potentially true that fibre-to-the-node – the connections can be made more quickly, by standing up the nodes.

What we do though is we leave the 18 month window for the competitive process to work. So, remember, the nodes are stood up and, if you like, the firing gun is started, but it is an 18 month window as RSPs compete to get all of the customers off the legacy network and on to the NBN. So that 18 month window is quite important and we've preserved that. It's not a construction period. That is a period in which, if you like, getting the last customers off the legacy network to the extent possible it happens.

MR THODEY: Right. But I think, Sameer, my perspective is that once we get through this, this will ramp pretty quickly and – but there is a bit of work to do just to get through this period, but we we're going to work closely with NBN to oversee if we – you know, how we can make this happen quickly. Okay. Next question.

FACILITATOR: Thanks you. Your next question comes from Ian Martin from CIMB. Go ahead, please.

MR I. MARTIN: Thank you. Good afternoon and, again, well done on the – getting this deal done.

MR THODEY: Thanks, Ian.

MR MARTIN: Just in relation to the – you know, the equivalence between this deal and where we last time. Now, it's a little frustrating dealing with the 2010 NPV when we're here at the end of 2014 and, you know, one of the key assumptions behind that number, you know, some years ago was that NBN would be at peak roll-out by FY14 and, you know, obviously that didn't happen. So I just wonder how you, you know, can be sure about the equivalence when the roll-out timetable was quite different.

MR THODEY: Okay. I will let Andy handle it, but, you know, we've discussed this internally how to get apples to apples comparisons so that we don't – so we're as transparent as we possibly can. Andy, do you want to take through our perspective and then we can – I can add any comments at the end.

MR PENN: Yes. I mean, absolutely. So, Ian, I mean, in doing our analysis, I mean, we're not – we can't sort of comment on the timing of the roll-out. It's really out of our hands. So the analysis that we're doing is to compare the valuation of this set of agreements compared to the original set of agreements based on, you know, the roll-outs that we had been provided, and so, as you would appreciate, to get a like for like comparison, we have to take this back to 2010.

Alternatively – the alternative we could have done is actually sort of value the old agreement on an NPV in today's dollars, but I can – you know, I can tell you that would have ended up being a similar outcome to this agreement. So we have done that piece of analysis, but, you know, you do have to do it on a like for like basis to get an equivalent valuation, but that's not taking into account whatever ultimately the roll-out may or may not happen to be.

MR THODEY: Right. So, Ian, I can say that there's many ways as possible we've looked at this thing that for us to be able to say we're being kept whole, I can assure you the board are independent advisors; everyone ..... us every which way, but in terms of our communication to the market and to the media we thought we can clearly go back to, you know, ... right way to do it, but that's where we're at.

MR MARTIN: Can I just ask in the same vein then, the transit network seems to me to be roughly where you would have scheduled it when you began this - - -

MR THODEY: Yes, absolutely. In fact, just about the day - - -

MR PENN: Pretty much, yes.

MR MARTIN: And so what – are you able to give some indication of what percentage of the infrastructure services agreement is in the transit network?

MR PENN: Not off the top of my head. We haven't disclosed that separately, Ian, but it – as you can – I mean, if you sort of think about it, it's – obviously a lot of the infrastructure goes to the exchange racks and – so it's less than half, it's a fair whack - - -

MR THODEY: It's a significant amount, it's less than half.

MR MARTIN: You would be getting a full year impact of that in the current year.

MR PENN: We will be – well, next year.

MR THODEY: Next year.

MR PENN: Next year, effectively, we will be - - -

MR THODEY: We've just about – because we finished mainly by about July, August.

MR PENN: That's right, but if you look at this year discretely, the beginning of the year would not be fully [indistinct].

MR THODEY: But that's all done and the racks, and the works for all that. Then it's only the – you know, the ducts and - - -

MR MARTIN: Yes, yes.

MR PENN: Then you've got the government contract which pretty much is the whole, and there's the PSAA payments which is the other one.

MR MARTIN: And the government guarantee, David you know, that was due to continue until NBN, you know, could guarantee its own payments, in effect. How is that impacted by the government's decision that, you know, NBN might be broken up into a number of smaller companies, each with perhaps a different risk profile?

MR WARREN: It's not. The government guarantee has been preserved. It's in place. Should – and as you know better than most, there's a lot of water to go under the bridge on that break-up idea. We will obviously see what happens at that point, but the guarantee stays in place.

MR THODEY: Yes. So what we've really tried to do, Ian, not that – that particular element I think has always been there, but we've tried to really disentangle ourselves from any government changes and, you know, technology, etcetera, so that this gives us greater protection for our shareholders.

MR MARTIN: Okay. Great. Thanks.

MR THODEY: Okay. Great. Who's next?

FACILITATOR: Thanks, David. Your next question comes from Raymond Tong, Goldman Sachs. Go ahead, please.

MR THODEY: Hi, Raymond.

MR R. TONG: Afternoon, guys. Congratulations on the deal. Just a couple of questions. David, you mentioned that one of the objectives was to minimise regulatory risk, and you sort of said that you've achieved that. Can you maybe give a bit more colour on that, just given I suppose the government regulatory framework that they announced last week?

MR THODEY: Yes.

MR TONG: And I suppose in relation to the infrastructure competition and impact on the deal.

MR THODEY: Okay. I will get Tony to talk to the regulatory stuff because he's close to that. Look, infrastructure competition – look, I really think that's – that with the government, I'm pretty relaxed where we're at. I mean, in terms of fibre to the basement, I think that all we ask is for a level playing field for everybody. And, look, if they want more infrastructure competition, I'm happy to participate. We already built fibre to the basement, and have done for many years. We will continue to do so. If we see commercial value to that off HFC. So that's not a big deal. But we would have to be, like everybody else, to offer on the wholesale basis so we're not – and to be quite honest with you, from our perspective, Raymond, it's in the noise but there is some principles there. I'm happy to take other questions, but are you happy to talk about the regulatory framework and the - - -

MR WARREN: Yes, sure, Raymond. Look, I think the regulatory changes as a result of this deal are, we think, rather minimal – rather kept to a minimum. So you will recall last time there was an awful lot of discussion and it took quite a lot of time to get the structural separation undertaking, including the interim – the equivalence in transparency items sorted out. That's really what took that really, you know, extra month – and months and months at the end. This time we are really focused on just making sure that the migration plan gets done. So we think that that extra – that regulatory dimension there is – it's important stuff and the Commission will need to assess it and get itself comfortable. And obviously we will engage with them on that. But we're not anticipating that to be a particularly problematic process.

More broadly, the policy announcements made late last week are interesting. They're a sort of follow up on the Vertigan stuff. We see – we're relatively comfortable with those changes. We will obviously participate in the various discussions that are flowing from that but this deal, itself, I don't think has a huge implication for that except that it puts hopefully the sort of NBN process more on a business as usual basis.

MR TONG: Sure, great. And just in terms of the revised part of the infrastructure agreement, you sort of indicated that there's a simplified mechanism for I suppose the ramp up or the payment calculation. Can you maybe talk about that or add a bit more colour to that?

MR WARREN: Yes. Effectively, what we've done – under the original agreement we had quite complex measurement and reporting mechanisms, you know, down to very sort of duct linear metres, etcetera. We've managed to scale that back and to get a much more simplified model which is still highly correlated to NBN Co's roll out but has a whole lot less administrative burden and cost, and a whole lot more – a whole lot less technical interaction required to get it done. So not material in the scale of things, but important from an administrative deal payment certainty kind of basis, and we think will drive efficiencies into both parties as a result of that. So not material, Raymond, in that respect but really good just in terms of the relationship and then working.

MR TONG: Right. And - - -

MR WARREN: And ..... of payment. The other thing is you just get a much greater certainty of payment.

MR TONG: Great, okay. And just in terms of a final question, the subscriber agreement. I suppose, given the transfer of network ownership, there's a bit more going on in this deal. Has there been more of a change of mix, or more value placed upon the infrastructure ownership payments and less on the actual disconnection payments?

MR PENN: No, Raymond. The numbers are still the same.

MR TONG: Okay. Great, okay. Thank you.

MR THODEY: But just in terms of the remediation, do you want to just talk about duct remediation, Tony?

MR WARREN: So under the original agreement, Telstra had the obligation to remediate all ducts for fibre to the home, fibre to the premise purposes. Under this agreement, because NBN Co is scaling back the amount of fibre to the premise it is proposing to do, it has essentially capped the amount of remediation we have to do. And as a result, we have linked a credit back to them which will be payable over the period of the roll out, which is very much closely related to the reduction in our obligation based, of course, on our original budgeted exposure.

MR TONG: Great. Okay. All right. Thank you.

MR THODEY: Who's next?

FACILITATOR: Thank you. Your next question comes from Roger Samuel, CLSA. Go ahead, please.

MR R. SAMUEL: Hi, good afternoon, guys. I've just got one question. Can you please clarify the timing of the disconnection payments? So if NBN is available in the area but the customers have not switched the service to NBN, will you receive a payment then or we have to wait until it's actually switched to NBN?

MR WARREN: So, Roger, let me just respond on that, if I may. It's Tony here. The mechanism remains unchanged to how it works today. So, effectively, that means that in an area which is, you know, several thousand premises – let's say 4000 premises at minimum, the rate for service will be called. So NBN Co will, if you like, start the firing gun. So if it's an area that's fibre-to-the-node, they will have stood up the node. And what that means is an 18-month window opens, and during that 18-month window customers will migrate, both wholesale and retail customers will migrate across to NBN Co – to be on an NBN Co service, whichever retail service provider they have. And when that happens, we get a PSAA payment. And at the end of the 18-month window we essentially close that window and we have essentially mandatory disconnection at that point. That's completely consistent with the way the mechanism works today.

MR SAMUEL: Right, got you.

MR THODEY: Great. Okay. Next one.

FACILITATOR: Thank you. Your next question comes from Richard Eary, UBS. Go ahead, please.

MR R. EARY: Afternoon, guys. A couple of questions from my side. Andy, I think you said there was no unit value change on the disconnection payments and I'm just sort of trying to understand that, if obviously as we go to a multi-technology roll-out, which essentially is going to be quicker, why does the NPV not change if the unit value is still the same, but we get a faster roll-out. So maybe you can just help me through that one.
MR PENN: Yes, I would. I will make a note of that and then your second question, Richard, and then - - -

MR EARY: Second question was the size of that cash cost with regard to the remediation. Obviously there's a credit on the other side. So we could just understand that cash cost size and whether it's sizeable or not. And then the last question maybe just to add is that, you know, in the actual release, you talk still about obviously construction and maintenance contracts with NBN Co on commercial terms. Can you update us to where those negotiations or conversations are at the moment and whether they are meaningful or not meaningful.

MR PENN: Okay. I will cover the first two and then David or Tony will talk on the construction, and maintenance and design possibilities. On the PSAA, the reason why ultimately the NPV doesn't change very much is that you might recall the original roll-out contemplated under an FTTP when we took that decision to shareholders in 2010 was that that roll-out would be completed by mid-2021, whereas I said earlier under the NBN strategic review, the MTM roll-out is expected to complete by the end of 2020, so effectively six months earlier.

So that, other things being equal, would lead to a higher NPV of disconnection payments. However, actually, on the front side of the roll-out, the roll-out was actually slightly slower than under a FTTP roll-out. So the swings and roundabouts of that basically offset each other such that the net present value of those payments, when compared on a like-for-like basis, are basically the same. That's the answer to the first point.

On the second point around the cash cost of the remediation, we made a budget for what we thought the remediation would be back in 2010. I don't think we disclosed separately what that was or is, so I'm not in a position to share that with you today, but essentially the agreement that we've got – or the deal that we're doing is that we're, as Tony said, basically passing over the majority of the remediation obligations and responsibility to NBN Co, so we eliminate all of the risk – the cost that we incur. It is greater than what we originally budgeted and we – for that, we basically provide them a pro-rata of the original budget that we had as a credit. So they sort of simply take that as a credit, because then they have all of the ongoing liability and obligation to do the remediation, but we haven't disclosed those numbers, but I think it's an important protection for us; it gives us risk mitigation and financial security on that point.

MR EARY: But how sizeable is that credit or those payments, Andy? I'm just trying to know whether it's a meaningful number or not.

MR PENN: It's not in the scheme of the – in the overall transaction.

MR THODEY: And I think it's fair to say that we think this a better outcome for shareholders. Well, unquestionably better for shareholders.

In terms of design, construction and maintenance, let me just answer the third part. So at the moment as you know we are doing a design and construction for the FTTN at the moment, but that's up to a certain point. We are doing the construction of 1,000 FTTN nodes up on the north coast of New South Wales. So that's what we have going at the moment. We are, you know, in discussions with NBN on further design work and that will – you know, as we've said – I said at the press release it is based, for us, about getting an acceptable return on doing any work and for NBN Co and the government it must be, you know – conform to due probity and all those processes they have to go through.

Look, we're positive about the discussions and how we're going and – but until it happens, you could never bank it. And on construction, we will look to see how we can help and, again, that's as much about our – what we're doing at any one time and what spare capacity we have, as it is about what they need to do. And then maintenance we will continue to discuss with them, because as they roll-out the FTTN, there's the maintenance on the copper and the HFC, and we've already started those discussions and that we will work through in due course, but we will keep you updated.

MR EARY: And, David, just to follow up, when do you think we will get further clarity on that? Is this three months, six months?

MR THODEY: I would say that it will be progressive, Richard, but I would say over the next three to six months you will get the clarity. There will be, you know, bits and pieces coming out along the way, okay.

MR EARY: And when you say an adequate return, what – can you elaborate or expand on that?

MR THODEY: On a fairly apportioned cost, I think.

MR ....: Not inadequate.

MR THODEY: Look, it would be what we would expect for any of our services which are in those sort of 20, to the mid-25 margin level, so gross margin, so I've been open about that all that time and I think that's what we can expect.

MR EARY: Okay. Thank you very much and congratulations.

MR THODEY: Okay. Andy is looking at me sideways saying, you know – but, look, we've always been consistent, you know, about what we think is reasonable, but it does depend on, you know, labour, labour utilisation, automation, all those things that we need to do. So it's like any – you know, people serviced as contract really, but – okay.

MR EARY: Thank you.

MR THODEY: Thank you. Who's next?

FACILITATOR: Thanks. Your next question comes from Nathan Burley, CBA. Go ahead, please.

MR N. BURLEY: Good day, guys. I've just got a couple of questions. I was wondering if there's any change to the exclusivity requirements. Additionally, just around some of the shareholder protections you've talked about, the old deal obviously gave you a large degree of optionality, even to use those assets after the exclusivity period. I wonder if there's any additional monetary value beyond the additional shareholder protection that you've announced. And, thirdly, just on the transfer of assets, could you comment of any, you know, staff transfers or any other obligation transfers associated with that?

MR THODEY: Okay. Now, can you just refer – clarify what you mean by exclusivity? What are you referring to?

MR WARREN: Is that's a non-compete, Nathan? Is that what you're referring to there?

MR BURLEY: Yes, that's right, Tony.

MR WARREN: Yes. Network preference. Okay. So the network preference obligations should be kept a little bit distinct from the asset issue, because once we disconnect a copper line, under the structural separation undertaking we cannot reactivate that line. What the non-competes do is they say after 20 years, we're able to – they fall away and we will be able to overbuild with NBN, but we wouldn't be able to reactivate the copper or the HFC. So just – it's important to just keep those two things in mind that they are somewhat different.

MR BURLEY: So under the previous deal you couldn't structurally separate a HFC after 20 years and reactivate it?

MR WARREN: No.

MR BURLEY: No. Okay.

MR WARREN: No. So those two parts – so those two provisions remain unchanged in the agreements, so we haven't touched those under these agreements.

MR THODEY: Okay. So let me – can I pick up on the other one. So in terms of optionality, let – I just want to be clear. We have preserved what we call the natural hedge. In terms of optionality, remember, because it is progressive – so the only time the asset moves across is once they have built or have, you know, put in place their infrastructure – I mean, the probability of going back at that point is very low. So we are not concerned about this really at all. The critical thing for us has been really the natural hedge, because once they overbuild or move, then that's really it. Some people say, "Well, about the copper down the street, maybe one day you might want to turn that on." I think the probability is pretty low. There is – and the third point is transfer of anything else. There is no other transfer of people or anything. That's really, you know – just goes as is where is and, you know – well, ... you from there, but it goes as is where is, okay.

MR BURLEY: Okay. Just – I was wondering if I could get one more in. Just given – this is sort of a follow-up on Richard's first question or to Ian's first question. Just given the delays in the NBN rollout and how that – that should have, obviously, reduced the NPV, has there been any additional nominal value sort of provided to you? Or – presumably, obviously, you've just got extra benefit out of the natural hedge. But I was wondering if you could just comment on whether there has been additional nominal value provided.

MR PENN: No, no. You've put your finger on it. I mean, the natural hedge has always been there and continues to be there. And so, that is – that has the effect of, you know, offsetting any impact from the delay of the disconnection payments.

MR PENN: So there's no – there's no other adjustments.

MR BURLEY: Great.

MR THODEY: Okay. Any other questions?

FACILITATOR: Okay. We do have one from Josh from ZDNet.

MR THODEY: Hey Josh.

MR J. TAYLOR: Hi, David. Congratulations on the deal. I just wanted to know how does the – the transfer of ownership of the maintenance of the copper network from Telstra to NBN Co? And, as a second question, is Telstra retaining ownership of any sort of the fibre asset links that connect the HFC networks around the country?

MR WARREN: Josh, I will take those. In terms of the maintenance of the network, NBN Co will, as it has under the current deal – under the current arrangements, have to build its own maintenance capability. We, as we flagged, will look to provide some commercial arrangements around that in future should that prove to be something that they want and that we can find profitable. So, in terms of the maintenance, they will progressively take over the maintenance of the assets as the assets transfer to them. So as the assets transfer across to NBN Co, obviously, they get the full ownership benefits but also the obligations that go with that. In terms of the ownership of the fibre that connects the HFC, we retain ownership of the fibre. We haven't transferred that fibre. But we do provide NBN Co with access to the fibre on an as-is-where-is basis to help them continue to have the hubs connected back to the network. So we think that that will provide a seamless a connection as possible for NBN Co.

MR TAYLOR: Does – does taking out the copper maintenance costs out of Telstra's hands change the value of the deal at all? Or is it because you were largely decommissioning it anyway it's not going to make that much of a difference?

MR THODEY: No. Josh, look, the maintenance of the copper networks is completely separate to the deal. Remember we wanted apples-to-apples on the deal if we were to do maintenance or anything else that's additional to what we've agreed. You got it?

MR TAYLOR: Yes. But just in terms of, I guess, from Telstra's point of view, now that you don't have to maintain the copper any more as part of the new agreement does that change – does that make it of a better value for you?

MR PENN: Well, we didn't anyway, Josh, because under the old agreement effectively the asset was rendered obsolete so it didn't have to be maintained. Under this agreement the asset transfers and the obligation to maintain it transfers with it.

MR TAYLOR: Great. Thank you.

MR THODEY: Okay. Okay.

FACILITATOR: Thanks, David. We've got one final question at the moment. It is from Andrew Levy, Macquarie Bank. Go ahead, please.

MR A. LEVY: Thank you. Congratulations on the deal. My question is just around the migration arrangement. When it was, you know, copper going to fibre or HFC going to fibre it was pretty clear when the – when the customer actually transferred over and Telstra started paying access payments over to NBN Co. It's probably a bit less clear in HFC. I was just wondering – and FTTN – if you could clarify for your retail customers when you start paying NBN for access? Is it when – is it when the – when the area is ready for service? Or is it when you put them on a specific NBN plan?

MR WARREN: It's – it's the latter, Andrew. So, to be clear, customers will need to take their fibre to the node. Customers will need to be jumpered across from our network to the NBN Co network. At that point – and that's both wholesale and retail. At that point, effectively, billing, if you like, will start flowing from NBN Co – the customer will be on an NBN Co service. But this will all be driven in that 18 month window by customers making choices. And so, the customer makes a choice to go on to an NBN plan in that window. They will make that choice. They will put an order in. And that will be what drives, you know, everything from the commercial billing relationships through to the physical changes over the network. That stuff is very – as you can imagine, very tightly tied down as a result of these negotiations.

MR THODEY: And, in fact ..... I mean, it's – it's a lot simpler for us, to be honest. So that's good. Okay.

MR LEVY: All right. Thank you.

MR THODEY: Peter.

MR KOPANIDIS: Thank you – thank you, everybody, for your attendance today. If there's any further questions contact myself or Nicola or the other guys in Investor Relations team. Once again, thank you and sorry for disrupting your Sunday afternoon.

MR THODEY: You go back to the barbeque now, you know. Okay. Okay. Thanks very much. Take care. Bye-bye.