Public Register version

Further material provided by Telstra Corporation Limited to the ACCC:

Domestic (Amplitel Pty Ltd) and international examples to support public benefits

In support of the application for authorisation under s 88(1) of the *Competition and Consumer Act 2010* (Cth) dated 31 March 2022

28 April 2022

1 Purpose of paper

Introduction

1.1 This paper sets out some of the public benefits that have flowed from:

(a) the separation of Telstra's InfraCo Towers business in 2021 (now Amplitel Pty Ltd), and

(b) corporate restructures of companies in the telecommunications industry internationally that are similar to Telstra's Corporate Restructure,

so as to provide real-world examples by way of evidence of the public benefits that are likely to arise as a result of the Corporate Restructure.

Background

1.2 The process of separating out retail and infrastructure businesses in the telecommunications industry is not new, and exists across a spectrum – including:

(a) **functional separation** – which involves distinct functional business units, such as a retail business being set up as a separate unit to wholesale and/or infrastructure business units;

(b) **legal separation** – which involves separate legal entities (as opposed to business units) being established for different functions, with overall ownership remaining the same; and

(c) **structural separation** – which entails creating two distinct, freestanding legal entities, without necessarily having common ownership.[1]

1.3 The Corporate Restructure will involve a move by the Telstra Group from (a) to (b) insofar as InfraCo Fixed and ServeCo are concerned.

1.4 A trend toward structural separation within telecommunications industries has gained momentum elsewhere, particularly in Europe, for reasons including financial and market motivations, and operational and strategic benefits.[2] Examples of this shift are set out below.

1.5 These examples, and this trend more generally, demonstrate the concrete benefits and value resulting from restructuring telecommunications businesses to separate out the infrastructure components, as is proposed for InfraCo Fixed and ServeCo through the Corporate Restructure.

2 Telstra/Amplitel – Australia

Background and rationale

2.1 On 20 June 2018, Telstra announced its T22 strategy, which included a commitment to establish a standalone infrastructure business. Specifically, 'Pillar 2' was to establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout.

2.2 On 12 November 2020, Telstra announced the proposed restructuring of the organisation to create three separate legal entities within the Telstra Group – InfraCo Towers, InfraCo Fixed and ServeCo.[3] Telstra intended to launch a process for identifying an external strategic investor for InfraCo Towers in 2021.

[1] McKinsey & Company, *Can telcos create more value by breaking up?* (22 January 2020), available at https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/can-telcos-create-more-value-by-breaking-up.

[2] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 1.

[3] Telstra Corporation Limited, *Telstra outlines new corporate structure, plans for mobile towers business monetisation, updates ROIC target and reconfirms FY21 guidance* (12 November 2020), available at https://events.miraqle.com/DownloadFile.axd?file=/Report/ComNews/20201112/02307623.pdf.

2.3 On 22 March 2021, Telstra indicated that it planned to commence the process for external strategic investment into InfraCo Towers early in FY22, with binding offers to be submitted in the second quarter of FY22.[4]

2.4 On 30 June 2021, Telstra announced that a high-calibre Australasian consortium comprising the Future Fund, Commonwealth Superannuation Corporation and Sunsuper (and managed by H.R.L. Morrison & Co) had agreed to acquire a 49% non-controlling interest and become a strategic partner in Telstra's towers business.[5] The consortium had approached Telstra with an offer earlier in 2021, which recognised the value of the assets and provided a compelling rationale to progress the transaction ahead of schedule.[6]

2.5 The consortium members have each articulated why they see Amplitel as an attractive investment in an infrastructure asset. H.R.L. Morrison & Co has described Amplitel's assets as "*amongst the most strategic critical infrastructure assets in Australia*",[7] whilst the CEO of Future Fund has stated that Amplitel:

> "*further strengthens our exposure to digital infrastructure and the long-term thematic of data growth. We are pleased to partner with Telstra to play an important role in strengthening Australia's 5G infrastructure. The long-term growth potential and defensive cash flow profile of this investment is a valuable fit with our focus on diversification across the portfolio*."[8]

2.6 On 31 August 2021, the towers business was launched following a transfer of business assets and liabilities to Amplitel Pty Ltd as trustee of the Towers Business Operating Trust (**Amplitel**). Amplitel was previously known as Telstra Towerco No. 1 Pty Ltd and is a subsidiary of Telstra.[9]

2.7 The sale of the 49% non-controlling stake in Amplitel was completed on 1 September 2021 for $2.8 billion. Telstra retains 51% ownership of Amplitel and continues to own the active parts of its network, including the radio access network and spectrum assets.

2.8 Telstra considers that the separation of its towers business in the form of Amplitel provides a tangible real-world example of the types of public benefits that Telstra expects will arise as a result of the Corporate Restructure, in particular with respect to providing optionality for potential value realisation opportunities in the future.

Greater transparency, flexibility and optionality for potential future value enhancing transactions

2.9 A clear separation between business activities via separate legal entities facilitates even greater transparency of performance of those entities, and enables those businesses to be more easily monitored, reported on and benchmarked. For Amplitel, separation has facilitated greater transparency with respect to its operations, which allows shareholders, potential investors and other third parties to more accurately value the Amplitel business based on its differing investment and return profiles.

2.10 Telstra's financial results for the half-year ended 31 December 2021 include reporting in relation to Amplitel as a standalone business. This reporting makes clear to shareholders and potential investors that Amplitel (as a separate business) saw income growth of 4.7% to $179 million for the half-year

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4 Telstra Corporation Limited, *Update on Telstra's proposed legal corporate restructure* (22 March 2021), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20210322/02355765.pdf, p 2.

5 Telstra Corporation Limited, *Financial results for half-year ended 31 December 2021* (17 February 2022), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20220217/02487720.pdf, p 33.

6 Telstra Corporation Limited, Media Release, *Telstra sells 49 per cent of Towers business for $2.8 billion and announces returns for shareholders* (30 June 2021), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20210630/02389413.pdf.

7 Tharshini Ashokan, Infrastructure Investor, *Future Fund leads consortium in A$2.8bn telecom deal* (30 June 2021), available at https://www.infrastructureinvestor.com/future-fund-leads-consortium-in-a2-8bn-telecom-deal/.

8 Future Fund and H.R.L. Morrison & Co, *Consortium agrees strategic partnership with Telstra InfraCo Towers* (30 June 2021), available at https://www.futurefund.gov.au/news-room/consortium-agrees-strategic-partnership-with-telstra-infraco-towers.

9 Telstra Corporation Limited, *Financial results for half-year ended 31 December 2021* (17 February 2022), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20220217/02487720.pdf, p 33.

ended 31 December 2021, including from internal charges, from continued demand including new builds, and from 5G coverage expansion by Telstra.[10]

2.11 Following the Corporate Restructure, the clearer separation of InfraCo Fixed's assets will sharpen focus on InfraCo Fixed's performance (separate to the Group's other activities), enabling Telstra to more easily report on performance of that business. This should assist shareholders, potential investors and other third parties to more accurately assess business value, and enable Telstra to more quickly react to potential value-enhancing transactions.

Enhanced focus on operations and strategy of each business, supporting innovation

2.12 Amplitel's ambition is to be "*Australia's leading full-service wireless infrastructure, services and solutions provider*" (for passive infrastructure).[11]

2.13 Telstra's ambition and key strategic objectives for Amplitel are to:

(a) provide better access to tower infrastructure;

(b) improve service offerings and asset health;

(c) pursue growth and drive asset efficiency; and

(d) be the home of tower infrastructure expertise.[12]

2.14 This focus on delivering efficiencies and developing new assets has resulted in tangible outcomes, with Amplitel post-separation investing in a number of new, innovative services and solutions, including:

(a) **A new asset management system –** which was released in November 2021. It provides Amplitel with the standalone, contemporary technology platform it needs for asset inventory, workflows and order tracking. When fully deployed, the platform will enable site and asset inventory for over 8,000 sites, tracking of design and construction of new sites, co-location site access and ordering, operational reporting and a customer portal.[13]

(b) **Creating digital twins of the network** – which creates a great customer experience by enabling available space to be visually shared for more accurate, speedy and cost-effective planning, enabling drone-based data capture, processing, 3D digital twin, analytics and reporting, and having direct integration with Amplitel's asset management platform. This also helps to prevent site incidents and reductions, while facilitating optimisation of maintenance routines. Over 1000 towers were digitised by July 2021, and Amplitel plans to have 90% of its mobile structures as digital twins by FY25.[14]

2.15 In addition, in a public statement post-completion of the Amplitel transaction, H.R.L. Morrison & Co representatives stated that it was looking forward to working with the Amplitel team to "*deliver efficient and reliable mobile infrastructure for its consumers, and consistent long-term returns for our investors*" and that it was turning its focus "*towards future opportunities for this business, including the*

[10] Telstra Corporation Limited, *Financial results for half-year ended 31 December 2021* (17 February 2022), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20220217/02487720.pdf, pp 4, 12, 13, 16, 17 and 33.

[11] Telstra Corporation Limited, *Telstra Investor Day 2021* (16 September 2021), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20210916/02421994.pdf, speaking notes pp 22-23.

[12] Telstra Corporation Limited, *Telstra Investor Day 2021* (16 September 2021), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20210916/02421994.pdf, speaking notes pp 22-23.

[13] See Telstra Corporation Limited, *Telstra Investor Day 2021* (16 September 2021), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20210916/02421994.pdf, speaking notes pp 22-23.

[14] See Telstra Corporation Limited, *Telstra Investor Day 2021* (16 September 2021), available at https://events.miragle.com/DownloadFile.axd?file=/Report/ComNews/20210916/02421994.pdf, speaking notes pp 22-23.

development of new assets, the expansion of tenancy agreements, and simplification of processes and pricing to maintain Amplitel's competitiveness and efficient management of its resources."[15]

3 Telecom NZ/Chorus example – New Zealand

Background

3.1 Telecom New Zealand was the incumbent fixed and mobile network operator for New Zealand. In 2011, it was fully separated into Chorus (**NetCo**) and Telecom NZ (which rebranded to Spark New Zealand (**Spark NZ**) in 2014).[16] This created two independent legal entities, which are separately listed on the New Zealand Stock Exchange.

3.2 Following the separation, Chorus owned the fixed telecommunications access network (including copper, exchanges, ducts, regional backhaul, Digital Subscriber Line Access Multipliers (or DSLAM) and electronics),[17] and offered wholesale voice access and x Digital Subscriber Line (or xDSL) access across the country.[18] Chorus's Fibre To The Curb (**FTTC**) wholesale only fixed line network covered most of the country.[19] Chorus also intended to build out Fibre To The Home (**FTTH**) to around 65% of the country.[20] Resellers of Chorus have included Spark, Vodafone, 2degrees and several smaller Internet Service Providers.[21]

3.3 Spark NZ, on the other hand, owned the mobile networks, the national backhaul/transit network and all the service businesses (including retail, Gen-I and AAPT).[22] Spark NZ also resold Chorus fixed line services and was the largest mobile network operator in New Zealand at the time, competing with Vodafone, 2degrees and other Mobile Virtual Network Operators (or MVNOs).[23] It also offered fixed-wireless access as a wirelines substitute.[24]

Rationale

3.4 The separation of Telecom New Zealand into two independent legal entities reflected the preferred commercial model of the 2009 partner selection process for the New Zealand government's Ultra-Fast Broadband investment initiative, which involved the provision of $1.35 billion in government funding for the roll-out of a Fibre To The Premises (**FTTP**) network to the New Zealand population.[25] In particular, for a telecommunications provider to participate in the tender process, it was required to accept a condition that it could not own a retail business - which effectively imposed a structural separation requirement.[26] As a result, Telecom New Zealand proposed a demerger in order for Chorus to be able to bid for the tender.

Public benefits

3.5 As a result of the separation, New Zealand has seen energised retail competition and many fixed service provider new entrants.[27]

3.6 By virtue of Chorus' investment, New Zealand has seen an "*impressive increase in FTTH*".[28] Chorus is close to completing its decade-long fibre roll out, with the program scheduled to end in 2023.[29]

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15 H.R.L. Morrison & Co, *Completion of Telstra InfraCo Towers transaction* (1 September 2021), available at https://hrlmorrison.com/news/completion-of-telstra-infraco-towers-transaction/.
16 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 55.
17 J.P. Morgan, *Telecom NZ Demerger: Don't like the sound of that Chorus* (17 November 2011), p 2.
18 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 55.
19 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 46.
20 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 46.
21 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 55.
22 J.P. Morgan, *Telecom NZ Demerger: Don't like the sound of that Chorus* (17 November 2011), p 2.
23 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 59.
24 Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 59.
25 J.P. Morgan, *Telecom NZ Demerger: Don't like the sound of that Chorus* (17 November 2011), p 2.
26 J.P. Morgan, *Telecom NZ Demerger: Don't like the sound of that Chorus* (17 November 2011), p 2.
27 Barclays, *BT Group PLC – Lessons from New Zealand* (14 March 2018), p 3.
28 Barclays, *BT Group PLC – Lessons from New Zealand* (14 March 2018), p 4.
29 New Zealand Reseller News, *30k premises to go: Chorus thrives as broadband rollout nears completion* (21 February 2022), available at https://www.reseller.co.nz/article/695483/30k-premises-go-chorus-thrives-broadband-rollout-nears-completion/.

Chorus also reported for 1HFY22 that fibre connections had increased by 47,000 to 918,000 with uptake now at 67% in completed Ultra-Fast Broadband areas (up from 65% at 30 June 2021).[30]

3.7 Both Chorus and Spark NZ have experienced share price improvements since separation.[31] As at 5 September 2018, there had been gains in Spark NZ shares and, while the Chorus share price was initially relatively weak, it has since recovered share value – with the combined value of Chorus and Spark NZ increasing since separation.[32]

4 O2 Czech Republic/CETIN example – Czech Republic

Background

4.1 In 2014, PFF Group (a local private-equity fund), bought O2 Czech Republic from Telefónica Group.

4.2 In 2015, O2 Czech Republic was structurally separated into two separate companies: O2 Czech Republic and CETIN.[33]

4.3 Upon the structural separation in 2015, CETIN became the wholesale-only network/infrastructure unit. CETIN is privately owned by PPF Group, and owns the data centres, fixed line and mobile network assets.[34]

4.4 Also following structural separation, O2 Czech Republic became the retail service provider business and was publicly listed on the Prague Stock Exchange. As at 5 September 2018, PPF Group owned an 80% interest in O2 Czech Republic on an arms-length basis with no direct management control.[35] However, at the end of February 2022, O2 Czech Republic was de-listed from the Prague Stock Exchange and PPF Telco BV (a member of the PPF Group, and O2 Czech Republic's principal shareholder) is now in the process of acquiring the remaining shares from O2 Czech Republic shareholders, with consideration to be paid by the end of April 2022.[36]

Rationale

4.5 PFF Group expressed its reason for the separation as being similar to unbundling electricity networks from electricity generators and suppliers.[37] O2 Czech Republic was released from its obligations under the Czech Telecommunication Office's regulatory regime, thereby opening up opportunity for O2 Czech Republic to expand its service offering.

4.6 In addition, O2 Czech Republic and CETIN would be able to become more streamlined and better focused on their specialisation (i.e. network or service).[38]

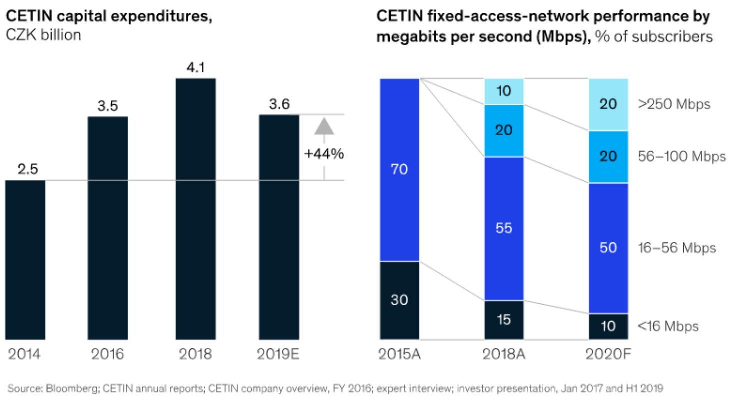
Public benefits

4.7 Some of the demonstrable public benefits of the 2015 structural separation included:

(a) the Czech Republic receiving a significant infrastructure upgrade (see chart below).[39] The creation of a separate infrastructure business lowered borrowing costs and improved capital access, meaning that CETIN was able to increase its network capital expenditure.[40] For

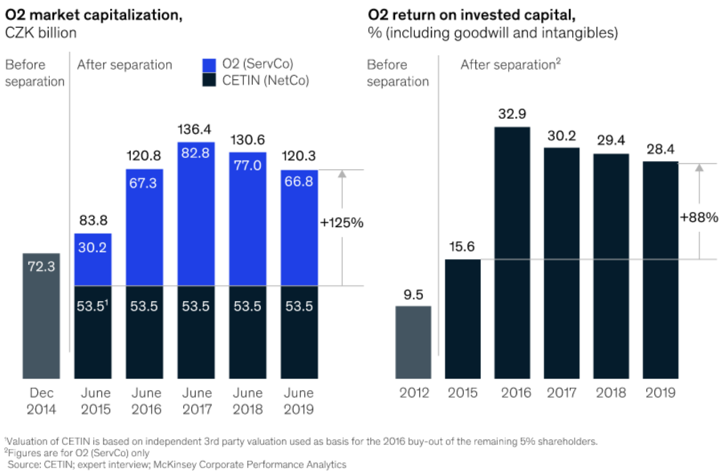
[30] New Zealand Reseller News, *30k premises to go: Chorus thrives as broadband rollout nears* completion (21 February 2022), available at https://www.reseller.co.nz/article/695483/30k-premises-go-chorus-thrives-broadband-rollout-nears-completion/.
[31] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 10.
[32] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 10.
[33] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 72.
[34] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 46.
[35] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 46.
[36] PPF, *PPF Announces De-listing of O2 Czech Republic a.s. Shares* (28 January 2022), available at https://www.ppf.eu/en/press-release/ppf-announces-de-listing-of-o2-czech-republic-a-s-shares.
[37] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 72.
[38] Credit Suisse, *European Telcos: Breaking them up* (5 September 2018), p 72.
[39] McKinsey & Company, *Can telcos create more value by breaking up?* (22 January 2020), available at available at https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/can-telcos-create-more-value-by-breaking-up.
[40] McKinsey & Company, *Can telcos create more value by breaking up?* (22 January 2020), available at https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/can-telcos-create-more-value-by-breaking-up.

example, in 2019, CETIN's network capital expenditure increased by over 40% compared to 2014. This led to a jump in fibre coverage and broadband speeds;



(b) O2 Czech Republic refocusing its efforts on reducing operating costs through the simplification of processes, products and internal and external communications, and replacements and upgrades to key information technology systems. This saw O2's EBITDA margin (between 2015 and 2019) grow from 27.1% to 32.6%.[41] Increased management focus also translated into higher customer satisfaction ratings for CETIN;[42] and

(c) rapidly creating "*tremendous value for shareholders*" of O2 Czech Republic.[43] As at June 2019, O2 Czech Republic had a market capitalisation which was 125% greater than CETIN. Further, as at 2019, O2 Czech Republic realised a 88% uplift in the return on invested capital (including goodwill and intangibles) since 2015.



41 Accenture, *Rise of The Network Company: Creating Value through Structural Separation of Network Infrastructure* (2020), available at https://www.accenture.com/_acnmedia/PDF-142/Accenture-Structural-Separation-Network-Infrastruture-Report.pdf, p 9.

42 McKinsey & Company, *Can telcos create more value by breaking up?* (22 January 2020), available at https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/can-telcos-create-more-value-by-breaking-up.

43 McKinsey & Company, *Can telcos create more value by breaking up?* (22 January 2020), available at https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/can-telcos-create-more-value-by-breaking-up.