

Supplementary statement in support of application for merger authorisation

RE: TELSTRA CORPORATION LIMITED AND TPG TELECOM LIMITED ARRANGEMENT FOR THE SHARING OF ACTIVE INFRASTRUCTURE AND SPECTRUM IN REGIONAL AUSTRALIA (APPLICATION)

Telstra Corporation Limited

Applicant

TPG Telecom Limited

Applicant

Statement of: Bart-Jan Sweers

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Occupation: Principal, Economic Modelling, Telstra Corporation Limited

Date: 4 November 2022

This document contains confidential information which is indicated as follows:

[Confidential to Telstra] [...] for Telstra Corporation Limited and its related bodies corporate

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A INTRODUCTION

1 I, Bart-Jan Sweers, am Principal, Economic Modelling at Telstra Corporation Limited (**Telstra**).

2 I am authorised to make this statement on Telstra’s behalf.

3 On 21 February 2022, Telstra and TPG Telecom Limited (**TPG**) entered into three commercial agreements:

- (a) MOCN Service Agreement dated 17 February 2022;
- (b) Spectrum Authorisation Agreement – MOCN Area dated 17 February 2022; and
- (c) Mobile Site Transition Agreement dated 17 February 2022,

which were subsequently varied on 28 April 2022 (**Proposed Transaction**).

4 I refer to the statement signed by me on 12 August 2022 in connection with the Proposed Transaction (**First Statement**).

5 This statement (**Supplementary Statement**) clarifies aspects of the First Statement and should be read in conjunction with the First Statement. Defined terms in this Supplementary Statement have the same meaning as in the First Statement.

B CLARIFICATION ON ECONOMIC MODELLING ASSUMPTION

6 At paragraphs 41 and 42 of my First Statement, I referred to paragraph 177 of the Application. Paragraph 177 of the Application provides that **[Confidential to Telstra]** [REDACTED]

[REDACTED]

7 For clarification, **[Confidential to Telstra]** [REDACTED]

[REDACTED]

C TELSTRA ARPU AND CHURN DATA

8 I also provide this statement in verification of certain factual matters set out in the Second Expert Report of Dr Jorge Padilla of Compass Lexecon on 2 November 2022 (**Second Compass Report**) and the further letter of instructions dated 1 November 2022 at Exhibit A of that report (**Compass LOI**).

- 9 I was asked to provide data to Compass Lexecon to assist Dr Padilla in preparing the Second Compass Report. The request for data came from, and I provided the data to, Telstra's solicitors, Gilbert + Tobin. I identify and explain that data in this Section C.
- 10 I provided the information at footnote 38 of the Second Compass Report on Telstra's monthly average revenue per user (ARPU), I referred to the publicly available spreadsheet titled 'Supporting material - FY22 Financial Tables (XLS)' on Telstra's website, in particular, the ARPU statistics as extracted in Figure 1 below. This spreadsheet was prepared as supporting material for Telstra's FY22 financial results announcement in August 2022.

Figure 1: Extract of Telstra's ARPU from 'Supporting material - FY22 Financial Tables (XLS)'

Average Revenue per Unit (ARPU) (\$)							
	Half-year ended			Jun 22 vs Jun 21		Jun 22 vs Dec 21	
	Jun 2022	Dec 2021	Jun 2021	Change	Change	Change	Change
	\$	\$	\$	\$	%	\$	%
Mobile							
Postpaid handheld	48.74	48.29	48.16	0.58	1.2	0.45	0.9
Prepaid handheld	25.22	22.70	21.46	3.76	17.5	2.52	11.1
Mobile broadband	18.46	17.58	16.20	2.26	14.0	0.88	5.0

- 11 I understand that the Second Compass Report assumes at footnote 39 that Telstra earns a gross margin of 65% of mobile sales. I consider that this is **[Confidential to Telstra]**

My methodology for calculating this estimate is as follows:

(a) first, I took 42.2%, which was the figure that Telstra reported in its Full Year 2022 results as the EBITDA margin for mobile services. This is the margin on Telstra's total mobile revenue, including from sales of hardware and interconnect services.

(b) I then excluded revenue from hardware and interconnect services and **[Confidential to Telstra]**

By making this assumption, the margin earned by Telstra on mobile services excluding hardware and interconnect services is

[Confidential to Telstra].

(c) This margin on total mobile revenue (excluding hardware and interconnect services) includes allocated fixed costs. **[Confidential to Telstra]**

[REDACTED]

(d) I then took into account depreciation, depletion, and amortization (D&A) / capital expenditure (**CAPEX**). Telstra's FY22 CAPEX to sales ratio was 14.5%. **[Confidential to Telstra]** [REDACTED]

[REDACTED]

12 I consider that this methodology is, overall, **[Confidential to Telstra]** [REDACTED]

13 I provided the information at paragraph 2.5(j) of the Compass LOI (which is also restated at paragraph 1.5(j) of the Second Compass Report) on Telstra's number of services in operation (**SIOs**). To ascertain this information, I referred to the publicly available spreadsheet titled 'Supporting material – FY22 Financial Tables (XLS)' on the 'Financial results' page on Telstra's website: <https://www.telstra.com.au/aboutus/investors/financial-information/financial-results>, specifically the SIO statistics extracted in Figure 2 below.

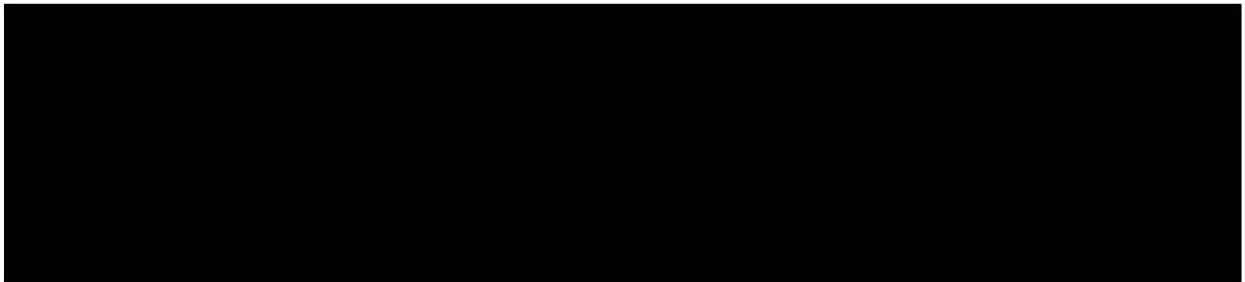
Figure 2: Extract of Telstra's SIOs from 'Supporting material - FY22 Financial Tables (XLS)'

Services in operation (000s)							
	Half-year ended			Jun 22 vs Jun 21		Jun 22 vs Dec 21	
	Jun 2022 000s	Dec 2021 000s	Jun 2021 000s	Change 000s	Change %	Change 000s	Change %
Mobile							
Postpaid handheld retail	8,740	8,669	8,585	155	1.8	71	0.8
Prepaid handheld retail	3,307	3,188	3,157	150	4.8	119	3.7
Mobile broadband (data cards)	3,035	3,033	3,023	12	0.4	2	0.1
Internet of Things (IoT)	5,700	5,128	4,676	1,024	21.9	572	11.2
Satellite	32	31	30	2	6.7	1	3.2
Total retail mobile	20,814	20,049	19,471	1,343	6.9	765	3.8
Total wholesale mobile	1,965	1,838	1,747	218	12.5	127	6.9
Prepaid handheld retail unique users	2,726	2,578	2,511	215	8.6	148	5.7

14 I provided the information at paragraph 2.5(d) of the Compass LOI (and restated at paragraph 1.5(d) of the Second Compass Report) as extracted below in Figure 3, I relied on:

- (a) Telstra's internal data and analysis on the number of services that became inactive (for a period of 1 month) over a 1 year period; and
 - (b) Telstra's national churn statistics. The national churn statistics are collected and reported internally by Telstra in the ordinary course of business. An extract of that business record is provided at **Annexure BS2**.
- 15 I also relied on information from Telstra's subject matter expert, Brent Bogatzke, who calculated the data in Figure 3 by:
- (a) first allocating services to either the MOCN area or the Non-MOCN metropolitan area based on their most used location, and identifying the number of services in either area that became inactive (for a period of 1 month) over a 1 year period;
 - (b) then calculating the relative propensity of customers to churn from Telstra in the MOCN Area and non-MOCN metro Area; and
 - (c) then applied this churn propensity factor to the national churn statistics to estimate churn rates in MOCN and non-MOCN areas. The calculation is provided in the spreadsheet provided at **Annexure BS3**, noting that in this data "donut" refers to the MOCN Area, "hole" is to the areas within the MOCN Area and "icing" refers to areas outside of the MOCN Area – the calculated churn propensity figures for the non-MOCN areas do not include the "icing" areas.

Figure 3: Telstra churn data [Confidential to Telstra]



- 16 I provided the information referred to at Annexure A (items 8-9) of the Compass LOI as extracted at **Annexure BS4** and **Annexure BS5**. This data is provided to Telstra in its ordinary course of business by Lewers as part of the Acquisition & Churn Out Deep Dive study.
- 17 In **Annexure BS4**, the reference to 'Other' represents:
- (a) churn to overseas providers;
 - (b) churn to independent providers;

- (c) respondents who can't remember/don't know;
- (d) respondents who entered an internet provider instead of mobile service; and
- (e) respondents who provide names of 'providers' we do not recognise as any mobile service provider.

Signed on behalf of Telstra Corporation Limited by



Signature of Bart-Jan Sweers

Date: 4 November 2022