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)

Statement on behalf of Telstra Corporation Limited

Statement of:	Nicolaos Katinakis
Address:	Level 41, 242 Exhibition St, Melbourne, Victoria, 3000 Australia
Occupation:	Group Executive, Networks & Information Technology, Telstra Corporation Limited
Date:	15 August 2022

This document contains confidential information which is indicated as follows:

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

Contents

A INTRODUCTION

1 I am the Group Executive for Networks & Information Technology (**IT**) at Telstra Corporation Limited (**Telstra**).

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

3 I am not authorised nor do I intend to waive legal professional privilege on behalf of Telstra in relation to any subject referred to in this statement, and nothing in this statement ought to be construed as constituting a waiver of privilege.

4 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**).

5 I had primary responsibility within Telstra for the development of the Proposed Transaction and negotiations with TPG. The individuals that I primarily dealt with during those negotiations from TPG included Inaki Berroeta (CEO), Trent Czinner (Group Executive, Legal and External Affairs) and Barry Kezik (Executive GM, Mobile and Fixed Networks).

6 The Proposed Transaction has been referred to internally at Telstra as Project Hannibal or Hannibal. Within Telstra, we established a steering group (referred to formally as the Hannibal Governance Forum (**Forum**)), which comprised Telstra executives involved in overseeing Project Hannibal and who were responsible for the decision-making and strategic assessment relating to the Proposed Transaction. The Forum members changed over time and included people on an as-needed basis. Some of our executives could not be involved because [**Confidential to Telstra**] [redacted], and at other times because of separation of our retail and wholesale business functions from TPG information. The regular members of the Forum throughout the period were Andrew Penn (CEO), Lyndall Stoyles (Group General Counsel; Group Executive) and me (as Group Executive, Networks & IT).

7 I have reviewed the Telstra confidential version of the application made by Telstra and TPG for merger authorisation under Part VII of the *Competition and Consumer Act 2010* (Cth) (**CCA**), for TPG's grant to Telstra for use of spectrum (under the Spectrum Authorisation), deemed

pursuant to section 68A of the *Radiocommunications Act 1992* (Cth) (**Radiocommunications Act**) to be a merger within the meaning of section 50 of the CCA (**Application**).

8 The matters set out in this statement are based on my personal knowledge and belief, including:

(a) my experience as an electrical engineer;

(b) my knowledge of Telstra's business and operations based on my experience with Telstra's business for more than 3 years as a Group Executive;

(c) my participation in the Telstra Executive Leadership Team;

(d) my knowledge and experience gained from previous roles held overseas at telecommunication providers and vendors; and

(e) my knowledge as the primary business executive responsible for the Proposed Transaction.

B BACKGROUND

9 I have held the role of Group Executive, Networks & IT since 15 October 2018. In this role, I am responsible for leading and making decisions in relation to Telstra's Networks & IT business unit. This includes:

(a) rolling out new technology developments, such as those related to 5G and maintaining the existing technologies, such as 3G and 4G; and

(b) maintaining, operating and enhancing Telstra's new and existing IT platforms.

10 In my role I have had primary responsibility and carriage of the Proposed Transaction.

11 I report directly to Andrew Penn, Chief Executive Officer of Telstra.

12 My own direct reports are responsible for the following teams in Telstra:

(a) Customer Technology;

(b) Technology Development and Solutions;

(c) Network and Infrastructure;

(d) Product Enablement Technology;

(e) Cloud, Data & Shared Technology;

(f) Operations, Security & Enablement;

(g) Software Engineering; and

(h) Commercial Engineering.

13 Prior to joining Telstra in October 2018, I held the following positions:

(a) Executive Vice President Networks, Reliance Jio (India), from 2014 to 2018: I was responsible for rolling out the first pan-India 4G LTE Network. I also led the wireline/fixed consumer and enterprise business with the objective to launch full commercial services across major cities in India.

(b) Vice President and then Senior Vice President of Architecture and Technology Development for Network and IT, and Chief Information Security Officer, Rogers Communications (Canada), from 2009 to 2014: I was responsible for the technology strategy, selection and roadmap that guided Rogers' deployment of next generation capabilities across all access networks and services.

(c) Vice President of Sales and Chief Technology Officer at Ericsson (Canada) from 2004 to 2009.

14 I previously held relevant board and industry positions in Canada, including at the Association for Telecommunications Industry Solutions, the Canadian Advanced Technology Alliance and the University of Toronto, as well as at UXP Systems, a digital life company (later acquired by Amdocs Canada).

15 I hold a Bachelor of Electrical Engineering, with a minor in Management, from McGill University in Montreal.

C EXPERIENCE WITH MOCNs

16 Mobile network operators (**MNO**) have historically used infrastructure sharing as a method of reducing capital and operational costs, while being able to expand and improve the quality of the network, particularly in sparsely populated regional and rural areas where a large number of sites are required for a significantly smaller customer base.

17 There are many forms of infrastructure sharing, including passive infrastructure sharing (where MNOs share the non-electrical components of their network such as the physical sites and towers) and active infrastructure sharing (where MNOs share the electrical components of their networks such as the base station, antennas and cables).

18 I have observed a growing trend, and participated in the negotiations, of active infrastructure sharing being adopted by MNOs internationally.

19 Active sharing can take various forms but in general terms they include:

(a) Neutral host arrangements, where the 'neutral host' is a third party whose role it is to build, operate and maintain the infrastructure. Not all neutral host arrangements involve the sharing of spectrum.

(b) Multi-Operator Radio Access Networks (**MORAN**), in which the 'host' is a MNO (access provider) who shares its RAN infrastructure (i.e. radio components, antenna, tower, site and power but not does include the service core) with another MNO (access seeker). MORANs do not involve the sharing of spectrum.

(c) Multi-Operator Core Networks (**MOCN**), involve shared RAN infrastructure (as in a MORAN) in addition to shared spectrum as that is more efficient from a spectrum utilisation and compute power perspective. As part of the standard configuration for a MOCN arrangement, the parties to a MOCN arrangement connect their respective and independent core networks to the shared RAN infrastructure. This allows the parties to continue to independently operate their own mobile core networks where the key service differentiation and sensitive functions occur (i.e. access control, authentication, voice and data routing and billing).

(d) Resale/MVNO services and domestic roaming involve the 'access provider' supplying a service which bundles the full vertical network stack, including its core network with the 'access seeker'.

20 I have been involved in the negotiation and establishment of MOCNs for many years. During my time working at Ericsson, in the early 2000s, I worked with customers from global telco companies who were looking to implement active sharing arrangements to help their network deployment in areas where it was otherwise unfeasible to do so. My role, at that time, was to evaluate different active sharing options from both a product management and product development perspective.

21 I was also engaged in the negotiation of active sharing agreements in my role at Rogers (the largest wireless operator in Canada). Over that period, Rogers explored ways to maximise spectrum usage and reduce operational costs. As part of that process, I was directly involved with the following deals:

(a) A proposed MOCN with Eastlink (eastern Canada, regional player). It did not become commercial due to a shift in strategy by Eastlink.

(b) Videotron: a large MOCN deal that enabled Videotron to expand coverage and also standardise the use of handsets, resulting in lower costs for consumers. This MOCN arrangement also involved partial coverage in large cities to improve coverage holes of Videotron.

(c) MTS (Manitoba Telecom): this MOCN arrangement also involved remote areas in order to improve the coverage of Rogers. MTS has since been sold to BCE Inc (formerly Bell Canada Enterprises Inc.).

(d) TBAYTel (ThunderBay Tel): in addition to a MOCN, it also involved the extensive reuse of sites in order to expand the coverage for Rogers and, correspondingly, improve the overall coverage of TBAYtel.

(e) Shaw: the MOCN deal was being negotiated with the company that previously owned the wireless assets of Shaw (Freedom Mobile). The negotiation did not conclude as Freedom changed approach and ultimately was sold to Shaw.

22 In every case where I have been involved (whether for Ericsson or Rogers), I have found that a MOCN offers a better commercial option for both parties, compared with other infrastructure sharing arrangements, such as a MORAN or roaming. While a MORAN provides cost savings through shared RAN infrastructure, that shared infrastructure needs to use different spectrum to serve different customer bases. This imposes substantial additional cost and complexity, because the same equipment needs to operate using different spectrum to different customers. A MOCN is more efficient as it allows the MNOs to pool their respective spectrum allocations, which increases the number of usable frequency blocks and improves data speeds – and means that the network equipment uses the same spectrum to service all customers. A MOCN is also preferable to a roaming arrangement as it allows each party to provide its own services to customers.

23 In Canada, where regional spectrum licences are prevalent, roaming has been mandated to enable operators to provide national services. However, the above MOCN deals remain in place notwithstanding mandated roaming, which demonstrates that they are commercially preferable.

D DEVELOPMENT OF THE PROPOSED TRANSACTION

24 When I joined Telstra in October 2018, the Australian telecommunications industry was entering a particularly challenging period with changing market dynamics, increasing data usage and shifts in customer expectation.

25 Telstra had also publicly committed to a significant opex cost reduction program across the organisation, targeting a further $1 billion annual reduction in underlying core fixed costs by FY22 (in addition to the previous target of $1.5 billion). Annexed to this statement and marked **NK-01** is a true copy of the media release titled ‘Telstra sets new strategy to improve customer experience, simplify structure and cut costs’.

26 From a network performance perspective, in 2018, I knew that Telstra wanted to be at the forefront of 5G deployment. This presented a challenge for us, especially in regional and rural areas, because any 5G deployment in those areas required low band spectrum and all of Telstra's holdings of low band spectrum was either occupied by 4G (700 MHz), 3G (850 MHz), or was in limbo due to a lack of clarity about future ownership (900 MHz).

27 By March 2020, COVID-19 had also emerged, and the country was in – or was heading into – lockdowns. This increased mobile data usage significantly, as a lot of households discovered that their fixed broadband connection struggled to support video games, streaming services and video calls, and therefore increased their use of mobile devices. This was particularly necessary on the upload given the increased levels of video conferencing from users working from home. In addition, people moved to regional areas during the pandemic. This contributed further to the congestion of the network in regional areas.

28 Later in 2020, in or around August, TPG and Vodafone finalised their merger and announced that the newly merged TPG was going to initiate its 5G rollout. Given my prior experiences as set out at paragraph 21, I saw that this might mean that TPG would be open to a MOCN arrangement that provided it with a way to accelerate its 5G deployment, while at the same time providing commercial benefit to Telstra through:

(a) monetising its existing and growing 5G network coverage in urban Australia through wholesale or similar revenue; and

(b) providing access to pooled spectrum – which would help alleviate the building congestion challenge, without the same direct capital cost (and timeframes) associated with rolling out additional sites.

29 The most successful MOCNs involve an alignment of commercial interests where the parties to a MOCN have different but complementary needs. In relation to TPG and Telstra, I saw a real opportunity for both parties. TPG would benefit from accelerated access to more sites, and an extended network footprint (which they otherwise would not have the capital to achieve, or which would take significantly more time) and Telstra would benefit from access to additional spectrum as well as a way to monetise our substantial, early investment in 5G infrastructure. [**Confidential to Telstra**] [redacted]

30 [redacted]

31 [redacted]

32 [redacted]

33 [redacted]

34 [redacted]

35 The negotiations with TPG concluded on 21 February 2022, when Telstra and TPG entered into the Proposed Transaction. There was a subsequent variation which was executed on April 28, 2022 which involved minor corrections but no substantive changes to the deal.

E VERIFICATION OF SELECTED SECTIONS OF THE APPLICATION

36 Paragraphs 69, 97 and footnotes 10 and 33 provide that 5G supports a wider and more varied range of service applications by having more generic hardware in the RAN and running more of the software in the core, such that services can be configured quickly and flexibly without changes being required to the RAN. For clarification, the ability to configure services quickly and flexibility occurs in the core and is not limited to 5G, rather it is the structure of a MOCN that

facilitates that ability. 5G supports a wider and more varied range of services as a result of the ability to slice the RAN and/or the core – when this is applied to a MOCN arrangement, the slicing ability can be shared by the parties who are sharing the RAN.

37 Paragraph 90(b) provides that a MOCN arrangement provides for each MNO's customer traffic within the agreed traffic classes to be treated identically (no discrimination) within the shared RAN. This sub-paragraph was intended to make clear that a MOCN arrangement must always provide for traffic management principles of some kind (often including KPIs or SLA arrangements). However, as I describe above at paragraph 34, [**Confidential to Telstra**] [redacted]

38 Paragraph 98 provides that 5G technology can replace the need to rely on deploying a range of different wireless technologies such as Long Range Wide Area Network (**LoRaWAN**) and potentially Wireless Fidelity (**WiFi**). For clarity, this is intended to mean that 5G technology offers the ability to network slice, LoRaWAN and Wifi can be emulated using 5G from a cost performance perspective. This does not mean to suggest that 5G will, in all circumstances, be appropriate to replace WiFI or LoRaWAN solutions.

39 As the Group Executive for Networks and IT, I was responsible for reviewing and approving section 1.2 (paragraphs 1-3) of the Application which describes the business activities of Telstra, including the supply of mobile services. They are accurate to my knowledge.

40 As the Group Executive for Networks and IT, I was responsible for reviewing and approving Section 2.4 (paragraphs 19-25) of the Application which describes Telstra's commercial rationale for the Proposed Transaction. Based on my role and experience in negotiations with TPG with respect to the Proposed Transaction and a regular member of the Hannibal Governance Forum, I confirm that those paragraphs are accurate to my knowledge.

41 As the Group Executive for Networks and IT, I was responsible for reviewing and approving section 3.1 (paragraphs 41-43) of the Application which describes what Telstra would do if the Proposed Transaction were to not proceed. I have been involved in discussions of this issue within Telstra, including with Andrew Penn. They are accurate to my knowledge.

42 As the Group Executive for Networks and IT, I was responsible for reviewing and approving section 5.3(A) (paragraphs 78-81) of the Application which addresses Telstra's T25 Strategy. They are accurate to my knowledge.

43 As the Group Executive for Networks and IT, I was responsible for reviewing and approving section 5.2 B, paragraphs 63-77 of the Application, which contain an overview of mobile

networks spectrum and in Australia. They are accurate to my knowledge, subject to the clarification at paragraph 36.

44 As the Group Executive for Networks and IT, I was responsible for reviewing and approving paragraphs 90-109 (Section 6 'What is MOCN and how does it work?') of the Application, which provide an overview of the typical architecture of a mobile network and how the MOCN works. They are accurate to my knowledge, subject to the clarifications at paragraphs 36, 37 and 38.

45 As the Group Executive for Networks and IT, I was responsible for reviewing and approving Section 7 (paragraphs 110-116) of the Application which addresses the commercial framework for the Proposed Transaction. They are accurate to my knowledge.

46 As the Group Executive for Networks and IT, I was responsible for reviewing and approving Section 10.1(B) paragraphs 255-272 of the Application, which set out the improvements to Telstra's network coverage in the MOCN area. They are accurate to my knowledge.

Signed on behalf of Telstra Corporation Limited by

[redacted]

Signature of Nicolaos Katinakis

Date: 15 August 2022

Statement on behalf of Telstra Corporation Limited in support of application for merger authorisation

Annexure NK-01

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

Statement of:	Nicolaos Katinakis
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Occupation:	Group Executive, Networks & Information Technology, Telstra Corporation Limited
Date:	15 August 2022

Media Releases

Media Release, 20 June 2018

Telstra sets new strategy to improve customer experience, simplify structure and cut costs

- **Creation of a new wholly owned infrastructure business unit, 'InfraCo' to drive performance and provide future optionality for a demerger or the entry of a strategic investor in a post-nbn rollout world**
- **Radical transformation of customer plans and pricing to deliver improved customer experience**
- **Increase of our productivity program by a further $1 billion to $2.5 billion cost out by FY22**
- **8,000 net reduction in employees and contractors and reduction in 2-4 layers of management**
- **Monetisation of up to $2 billion in assets over the next two years to strengthen the balance sheet**
- **Telstra to remain premium brand and lead and win in 5G**
- **FY19 EBITDA guidance[1] of $8.7 - $9.4 billion expected excluding restructuring costs of approximately $600 million**

Wednesday 20 June 2018 – Telstra today announced a new strategy to lead the Australian market by simplifying its operations and product set, improving customer experience and reducing its cost base.

The strategy, named Telstra2022, has four key pillars:

- Radically simplify our product offerings, eliminate customer pain points and create all digital experiences
- Establish a standalone infrastructure business to drive performance and set up optionality post the nbn rollout
- Greatly simplify our structure and ways of working to empower our people and serve our customers
- Industry leading cost reduction programme and portfolio management

The changes form a three-year plan building on the strategic investments Telstra announced in 2016.

Telstra CEO Andrew Penn said the strategy would fundamentally change the nature of telecommunication products and services in Australia by eliminating

"We will take a bolder stance and use the disruption in the telecommunications industry to lead the market for the benefit of our customers, employees and shareholders," Mr Penn said.

"The rate and pace of change in our industry is increasingly driven by technological innovation and competition. In this environment traditional companies that do not respond are most at risk. We have worked hard preparing Telstra for this market dynamic while ensuring we did not act precipitously. However, we are now at a tipping point where we must act more boldly if we are to continue to be the nation's leading telecommunications company."

A consequence of the plan is an expected net reduction in employee and contractor numbers of 8,000, including removing one in four executive and middle management roles to flatten the structure.

"We are creating a new Telstra that is able to continue to lead the market. In the future our workforce will be a smaller, knowledge-based one with a structure and way of working that is agile enough to deal with rapid change. This means that some roles will no longer be required, some will change and there will also be new ones created," Mr Penn said.

"We understand the impact this will have on our employees and once we make decisions on specific changes, we are committed to talking to impacted staff first and ensuring we support them through this period."

Telstra2022 pillars

The strategy leverages the significant capabilities already being built through Telstra's up to $3 billion strategic investment announced in August 2016 in creating the Networks for the Future and digitising the business.

"The network investments have been critical as Telstra builds capability in software defined networking and prepares to lead the market and win in 5G. We will be network ready in the first half of FY19 with full rollout to capital cities, regional centres and other high demand areas by FY20," Mr Penn said.

The Telstra2022 strategy will therefore be underpinned by the largest, fastest, safest, smartest and most reliable next generation network. The digitisation program is delivering completely new technology stacks for Consumer and Small Business and Enterprise customer segments which will be the platform for the new products we are launching."

The four pillars of the program are:

Pillar 1: Radically simplify our product offerings, eliminate customer pain points and create all digital experiences

This will be different to anything currently in the market, addressing the need to increase the simplicity, transparency and satisfaction that customers experience with telco products today. This will see a fundamental change to the way Telstra designs products, sells services and provides customers with support. Leveraging its investment in digitisation, Telstra will simplify its products by retiring all of its more than 1,800 consumer and small business plans and instead introducing 20 core plans backed up by an effortless digital service that removes complexity and provides cost certainty – addressing key pain points for customers.

Customers will start to benefit from this simplified approach in July when Telstra launches peace of mind data across a range of new post-paid plans, making excess data charges a thing of the past. Four more major product and service experiences will be progressively announced in the lead up to June 2019, the details of which will remain confidential at present for competitive reasons.

By June 2019 Telstra customers will experience a radically simplified experience made possible by new intuitive digital platforms, with all customers being moved to the new product range by 30 June 2021.

For Enterprise customers, Telstra already offers some of the best digital solutions in the market. Telstra will continue to be the best one-stop shop for all B2B technology needs, offering customers a modular, curated, self-service and simplified product portfolio. The program to remove complexity will be accelerated to reduce the existing product portfolio by more than half within three years. The approach will also include greater emphasis on a digital-first model, supported by software-based platforms and Internet of Things. It is expected this will bolster Telstra's historical strength with large customers and enable it to push firmly into the mid-market and increase market share.

Over the past year, Telstra has built a completely new technology stack for mid-market and Enterprise customers, which will enable these changes. Telstra will use the natural momentum in the business to migrate customers to the new product suite enabling it to stop the development of products on legacy systems, and aggressively rationalise old applications and services.

Pillar 2: Establish a standalone infrastructure business to drive performance and set up optionality post the nbn rollout

Effective from 1 July, Telstra will create a wholly owned standalone infrastructure business unit. It will have its own CEO reporting to Mr Penn. The business unit, called Telstra InfraCo will comprise Telstra's high quality fixed network infrastructure including data centres, non-mobiles related domestic

Telstra InfraCo will also comprise Telstra's nbn co commercial works activities and Telstra Wholesale, with a total workforce of approximately 3,000. It is expected this new Business Unit will control assets with a book value of about $11 billion and have annual revenues and EBITDA of about $5.5 billion and $3 billion respectively.

"As technology innovation is increasingly relying on connectivity, the role of telecommunications infrastructure is becoming more important. There is virtually no technological innovation happening today that does not rely on a high quality, reliable, safe and secure telecommunications network. In this world our infrastructure assets are becoming more valuable. By creating a new infrastructure focused business unit we will better optimise and manage these assets," Mr Penn said.

The new business unit will not include the mobile network assets including spectrum, radio access equipment, towers and some elements of backhaul fibre, which will remain integrated with Telstra's core customer segment focused business to support the company's network differentiation. This is particularly important for Telstra's mobiles business as it executes its 5G strategy.

The new infrastructure business unit will provide more flexibility and transparency in the management of Telstra's underlying infrastructure. Amongst other things, the arrangements will reinforce the discipline with which capital allocation occurs across the group.

Importantly, Telstra InfraCo will provide significant optionality for Telstra in the future for a potential demerger or the entry of a strategic investor once the nbn rollout concludes.

Telstra's H1 FY19 financial statements will contain detailed segment reporting for Telstra InfraCo.

Pillar 3: Greatly simplify our structure and ways of working to empower our people and serve our customers

Telstra will implement a new streamlined operating model and organisational structure to be announced in July. Ways of working are being simplified and re-aligned to increase the focus on best serving customers, increasing the focus on product leadership, breaking down silos and enabling the sizeable transformation to which Telstra is committing today.

In addition to Telstra InfraCo, one of the first changes to come into effect will be the creation of the Telstra Global Business Services group, also reporting to Mr Penn. This group will be a point of consolidation for all large scale "back of

Sign in

Telstra also intends to elevate its focus and capabilities in product development and management across the company increasing the leverage and sharing of technical efforts across all customer segments.

The implementation of Telstra Global Business Services combined with accelerated simplification of processes, moving to more agile ways of working and product simplification is expected to lead to an overall reduction in labour costs of around 30 per cent. This will result in a net reduction of 8,000 employees and contractors over the next three years. The initial focus will be on the reduction of executive and management roles and minimising any impact on customer facing teams. Telstra will also invest in approximately 1,500 new roles to build new capabilities required for the future, in particular the shift to new engineering capabilities including software engineering and information and cyber-security.

Recognising the significant impact these changes will have on employees, Telstra also announced two new programs. A Transitions Program for those leaving Telstra will provide enhanced outplacement support. For those remaining, Telstra will provide support to upskill and transition to new ways of working in a leaner and more agile organisation. To support the programs Telstra intends to make available initial funding of up to $50 million.

Pillar 4: Industry leading cost reduction programme and portfolio management

Two years ago, Telstra narrowed its strategy to ensure all new growth investments were more closely focused on products and services close to the core of the business. Since then decisions have been made not to pursue international consumer opportunities such as in the Philippines, to sell the investment in Autohome for $2.4 billion, to restructure the investment in Foxtel and to streamline the health business and Ooyala.

Telstra intends to monetise assets of up to $2 billion over the next two years to strengthen the balance sheet. It is also increasing its target for its productivity program by a further $1 billion to reduce underlying core fixed costs by $2.5 billion by FY22. We expect Telstra's total costs will remain flat or reduce despite absorbing more than $1.5 billion of increased nbn AVC/CVC costs that will be incurred as we migrate to the nbn.

The key drivers of the increased productivity targets include simplifying the product set, phasing out legacy products and systems and migrating customers to new products. Other drivers include further digitising sales and service channels and continuing to improve procurement practices.

Benefits

Sign in

premium and most trusted brand in telecommunications.

It has six specific goals with tangible and clear milestones covering customer experience, simplifying the business, network superiority, people, cost improvements and strengthening the balance sheet. Details include:

- Reducing the number of consumer and small business plans from 1,800 to 20.
- Migrating all consumer and small business products and plans and 50 per cent of enterprise customers to completely new technology stacks within three years and leave the legacy behind.
- Establishing a standalone infrastructure business unit to drive improved performance and create optionality for the future including a potential demerger or the entry of a strategic investor post the rollout of the nbn.
- Reducing 2-4 layers of management across the organisation.
- Eliminating the need for one third of customer service calls within two years and two thirds by FY22.
- Leading in all key industry surveys for network performance.
- Increasing our productivity program by a further $1 billion to $2.5 billion by FY22.
- Monetising up to $2 billion in assets over the next 24 months to strengthen the balance sheet.

The cost out target adds a further $1 billion in productivity to Telstra's current announced target of $1.5 billion taking core non DVCs from $7 billion in 2017 to $4.5 billion by 2022. Telstra expects to incur additional restructuring costs of approximately $600 million in FY19 and further restructuring costs across the remaining years of the program including the potential acceleration of depreciation and amortisation from the early shutdown of legacy systems.

Telstra is committed to the previously announced more than $500 million of incremental benefits from its strategic investment program. Telstra2022 would not have been possible without these investments.

Telstra confirms there is no change to its capital management framework and expects its capex to sales ratio to be 16 to 18 per cent in FY19.[2] [3] Capex to sales over the medium term is expected to be 14 per cent.[2 3]

Mr Penn said Telstra2022 was developed in response to anticipated changing market dynamics, which initiated the investments announced in 2016.

competition. We are seeing this play out in our financial performance and therefore the impact on the economics of the company are very significant. Against that background, we announced in May that FY18 earnings will be at or around the bottom end of guidance. We expect the trends to continue in to FY19. In our guidance for FY19 we have assumed the market will decline 2 to 3 per cent in mobile and fixed revenue," he said.

Telstra advised the transition under the program is also likely to eliminate up to $500 million in revenues for its services over the next three years, with excess data charges being the first example. However, over the longer term Telstra believes these moves are in the best interests of customers as they accelerate a trajectory already underway and will drive long-term value. They are expected to be more than offset by more services per customer and lower costs from simplicity and leadership shown by Telstra translating into new sources of growth.

"These trends are not dissimilar to that which we have seen in global telecommunications markets, including the US and Europe particularly after the entrance of new mobile operators," said Mr Penn.

Telstra also provided the following financial guidance for FY19[4].

- Income to be in the range of $26.6 billion to $28.5 billion
- EBITDA to be in the range of $8.7 billion to $9.4 billion (before restructuring costs of approximately $600 million)
- Net one-off Definitive Agreements receipts less nbn net cost to connect in the range of $1.8 billion to $1.9 billion
- Restructuring costs of approximately $600 million
- Capex to be in the range of $3.9 billion to $4.4 billion

Telstra's dividend policy is set out in its capital management framework and is to pay a fully franked ordinary dividend of 70 to 90 per cent of underlying earnings[5] [6] and return in the order of 75 per cent of net one-off nbn receipts over time via fully franked special dividends.[7] 6

While Telstra does not provide forward guidance on the dividend, it is reconfirming today that the total dividend for FY18 will be 22 cents per share[6]. Dividend decisions for FY19 will be announced in FY19.

Mr Penn said he was confident the strategy would set Telstra up well for the future.

period of transition and positioning ourselves to create a strong platform for growth. At its core, this strategy is about placing customers at the centre of everything we do and delivering simpler, more flexible products with a beautiful digital service experience," he said.

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[1] See Footnote 4

[2] Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex.

[3] The guidance assumes the nbn™ rollout and migration in FY19 is broadly in accordance with management's current best estimates and may be updated for any material changes, including after taking account of the nbn Corporate Plan 2019 when it is published.

[4] This guidance also assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout and migration in FY19 is broadly in accordance with management's current best estimates and may be updated for any material changes, including after taking account of the nbn Corporate Plan

consistent with IFRS15 under which we will report FY19 results. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex.

[5] Underlying earnings is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 6.

[6] Return subject to no unexpected material events, assumes the nbn rollout and migration is broadly in accordance with management's current best estimates, and is subject to Board discretion having regard to financial market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.

[7] "net one-off nbn™ receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost connect less tax.

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