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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript - ACCC draft decision on mobile roaming

I attach a copy of the transcript, from the conference call held on Friday 5 May 2017, in relation to the ACCC draft decision on mobile roaming, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

Telstra Market Update - Response to ACCC Draft Decision on Regulated Roaming, Friday 5 May 2017

SPEAKERS: MR ANDREW PENN
Chief Executive Officer

MR JASON LAIRD
Executive Director Communications and Chief Social Officer

MR TONY WARREN
Group Executive of Corporate Affairs

MR A. PENN: Thanks very much, Jason, and good morning, everybody, and thank you for joining in to this call. As you will have seen earlier today, the ACCC released a draft decision that, if confirmed, will support continued telecommunications competition and investment in regional Australia. This is the right decision for the people, businesses and communities of regional Australia because it ensures the industry still has the incentives to invest.

Because today we live in a world where being connected is so much more important than it has ever been before, whether it's talking to family or friends, mobile banking, doing business, or using many of the services in our lives today that can only be accessed online. It is even more important for people in regional areas as it is for those living in the cities, because often they do not have the same physical access to the services that are available in the cities.

Now, as you will appreciate, it requires a significant amount of infrastructure and billions and billions of dollars to build and maintain these networks that allow this to happen. It's even more so in regional areas due to the sheer size of our country, where it takes much more investment to give regional Australians the connectivity they need. Today's announcement by the ACCC means that all telcos will continue to have the opportunity to invest in regional Australia and ensure more people can enjoy the benefits of future technology upgrades. This will be particularly important given the exciting opportunities and benefits that 4G and in the future, 5G will bring to rural and regional Australia.

Now dozens of community groups, business leaders, local councils and politicians from all over the country made this clear in their submissions to the ACCC. The overwhelming call from regional Australia was that their top priority was encouraging telecommunications investment to improve and extend mobile coverage. Last year we committed to keep investing to improve and expand our mobile network in regional, rural and remote areas.

Before this draft decision, we had shared with the market our plans to invest \$350 million in new technology in regional base stations, more than \$200

million to continue our work on the first two rounds of the mobile blackspots program, and \$100 to \$200 million for new regional co-investments. With the co-investments, we estimate this will be up to a \$1 billion boost to regional mobile coverage.

We also support the ACCC's suggestion to encourage greater transparency about network quality, expansion and improvements. If this decision is confirmed, we will immediately move to expand our 4G coverage to reach 99 per cent of the population by later this year. It also paves the way for ongoing investment in the coming years that would see an additional 1.4 million square kilometres of 4G coverage for regional and rural Australia. This means that about 600 base stations will be upgraded from 3G to 4G, giving the Australian population access to world-leading 4G networks.

It is useful to briefly recap on why so many people were strongly against regulatory roaming. It's like if you've got your own farm and you've worked over many years very hard to improve it, only to be forced to allow a rich foreign company to plant crops on it, of course your incentive to further invest in your farm would be reduced. Why spend the money if all you're going to do is give it to your competitors as a free ride? No company invests its money, let alone its technology and its talent if ultimately it is going to be required to provide those assets to its competitors. It would deprive that company of the point of difference that it has strived so hard to build, especially competitors with their own capital who have the capacity to invest but just have not – have chosen not to do so in regional Australia.

Under the current rules, all mobile network operators have the incentive to expand the size of their network because it helps them attract customers. Moreover, the current regulations are in place to facilitate the sharing of mobile towers and access to backhaul. That exists today. I also want to be clear on another point. Telstra receives no subsidies from the Government. Let me repeat that. We have received no subsidies from the Government. We have participated in the Government's Mobile Black Spots program, which is a co-investment program, and we've put our money alongside the Government's to provide better coverage to regional Australia.

These programs of co-investment, the Mobile Black Spots program is a program that is available to all operators and all operators have invested in it. We've always been the provider of the best networks in Australia, and my commitment as the CEO has been to continue this through increasing our investments in the networks for the future to ensure that our customers have access to the fastest speeds, greatest capacity and best coverage and the best content.

We've always been and will continue to be the company that regional Australia can rely on. In the past six financial years alone, we've invested more than \$8 billion of our shareholders' money building Australia's biggest and best mobile network with 15 per cent of this investment directed to cover the last two per cent of Australia's population. I strongly encourage others in the industry to follow Telstra's lead and put forward serious investment plans

in order to deliver the kind of future that regional Australia and regional Australians deserve.

If this decision is confirmed, I look forward to Telstra getting on with the job of supporting regional Australia and even more investment. Thank you, and I will now hand back to Jason, who will facilitate some Q&A.

MR LAIRD: Okay. Thanks, Andy, and as I said, we have Andy and Tony Warren available for questions. So just check, Operator, if we have any questions. I see we have Max Mason from Fairfax.

MR M. MASON: Hello. Good morning, guys. I just wanted to ask a quick question. We were on the ACCC teleconference about 10 minutes ago and I guess there is an expectation from the competition regulator that there will be commercial roaming agreements. Just from Telstra's standpoint, what is a reasonable price that your competitors should have to pay to you for using your network?

MR PENN: Well, there's already a market and we have a number of wholesale arrangements with other mobile operators through MVNOs and there are other commercial roaming arrangements in place in the market, and each of them are individually negotiated and it's an effective market. The pricing for using Telstra's network or the pricing on any of these roaming arrangements is a function of the individual commercial arrangements for each of those particular transactions. But whatever price obviously has to reflect the investment that we make in that network.

MR MASON: That's it from me now. I'll let others ask questions.

MR PENN: Thanks, Max.

MR LAIRD: Okay. Thanks, Max. Our next question is from Eric Pan from JP Morgan.

MR E. PAN: Good morning, guys. Congrats on the decision. My first question is, was this a key piece of information for your capital management review, and if so, do you feel that you need to wait for the final decision before you conclude your review, or are there other pieces of information that you're waiting for?

MR PENN: Well - - -

MR PAN: And then - - -

MR PENN: Sorry.

MR PAN: Sorry. Go ahead.

MR PENN: No, no. I interrupted you. I'll let you finish your question.

MR PAN: No, that's my first question. I have a second question.

MR PENN: Okay. Sorry. Well, when we announced our capital management review, I think it was last November, we said that we expected it to be a six to a 12-month timeframe, and we still expect that to be the case. So you should therefore assume that some time over the next six to 12 months we'll – sorry – some time over the next six months we will have completed that work and we'll communicate the results of that to the market. So nothing's changed.

MR PAN: My second question is can you just talk a little bit about how you're thinking about the potential competition coming from TPG's announcement in light of today's decision and how you're planning on defending your market share?

MR PENN: Well, look I think, you know, TPG's announcement, today is entirely consistent with the ACCC's decision in that what it demonstrates is there is clearly a competitive, an efficient and an effective mobile market in Australia, because you've got a new competitor that has come in and is willing to invest multibillions of dollars to build a new network for Australians. And what that will drive is, that will obviously drive more competition. It will drive more innovation into the sector, and that can only be good for customers. Our focus will be and will continue to be network leadership and we'll continue to provide Australians with the best coverage, the best quality network, the best content, and that's where we'll continue to compete.

MR PAN: Thank you.

MR PENN: Thank you.

MR LAIRD: Our next question is from Craig Wong-Pan from Deutsche Bank.

MR C. WONG-PAN: I just wanted to understand what are the risks around the ACCC moving from their draft decision – sort of any resistance to changing that? I mean, I guess, looking over the past sort of declaration of decisions it does seem like ACCC usually keeps in line between the draft and final. So I just wanted to understand, from your perspective, what are the risks there of changing?

MR PENN: Look, I mean I think the ACCC obviously conducts these inquiries very thoughtfully and in a very considered way. And it obviously seeks to get input from all key stakeholders and give all key stakeholders an adequate opportunity to respond both to the issues that they present in the first place and then draft decisions that they issue, and so that – that it's a proper and an extensive consultative process. I think I've not had the opportunity to read the ACCCs full report yet, but I've got no doubt that it will be very comprehensive and will have fully canvassed all of the issues that are relevant to its decision.

Overwhelmingly, what Australians are saying – what regional Australians are saying is that what's most important is coverage and quality of network, particularly in rural and regional Australia. So I'm not surprised that the decision is what it is. And I would expect that – that's ultimately what the final decision will be. But that's not for me to say, obviously. And it's entirely appropriate that the ACCC goes through the process it does and issues a draft decision before ultimately concluding on its final recommendations.

MR PANG: Yes. Great. Thanks.

MR PENN: Thank you.

MR LAIRD: Thanks. Our next question is from Raymond Tong at Evans and Partners.

MR R. TONG: Good morning, Andy and Tony. I'm just wondering whether you have any, sort of, early thoughts on the ACCC seeking views on potential measures to improve competition and coverage in regional areas. And they sort of mention such as improving, sort of, the effectiveness of infrastructure sharing.

MR PENN: Well, look, I think I haven't, Raymond, had the chance to look through the sort of – the detail yet. But, I mean, certainly one of the things I did pick up was some recommendations around transparency. And I think transparency is always a good thing so the customers can actually understand the relative differences and coverages on the various different networks. And I think that's, ultimately, what provokes and promotes the best competitions if you empower customers to fully understand the difference between the operators, and you ensure the operators have got the incentives to make the investments to differentiate where they can and where they choose to. So that's what I would encourage.

MR TONG: Right. Thanks Andy. And just a second question. I'm just curious whether this uncertainty over the roaming decision has delayed in any way parts of the \$3 billion capital investment program and the investment in the mobile network?

MR PENN: No. Not in a material way, Raymond. I mean, our incremental investment of \$3 billion of strategic investment was very much about the networks for the future. And it has been about building the foundations for Software Defined Networking – Network Function Virtualisation, and laying the groundwork for 5G. So, no. And what this draft decision today means is that we can get on the job – on with the job of continuing to invest as we have done in the coverage for regional Australia. I was excited to be in Culla, which is on the border of Victoria and South Australia, literally three or four weeks ago with Senator Fiona Nash opening our hundredth Black Spot, which will bring great needed coverage to the community of Culla and the farmers in Culla.

MR TONG: Great. Thanks, Andy.

MR LAIRD: Thanks. Next question is from Ian Martin, New Street Research.

MR I. MARTIN: Hi, Andy. Just – obviously the ACCC is still concerned about getting some network competition and service competition in regional areas, and are seeking these comments about what other regulatory and policy measures might apply. First that's an ongoing risk, it seems to me. And you mentioned that all telcos now have the opportunity to invest in regional areas. But the economics of incremental investments are much worse in regional areas than metro areas.

We've seen a couple of examples where there's some cooperation between the carriers in network rollout - the Victorian Regional Rail Project recently, for instance. So I just wonder, given this warning shot from the ACCC whether we're – there's an opportunity to look for more cooperative investment opportunities, and whether that's an incentive for Telstra to perhaps find more ways to cooperate with the other two network operators.

MR PENN: Well, I might get Tony to add a couple of comments in, so – but thanks for your question. I mean, I think, fundamentally, as I said in my opening comments, I mean, connectivity has just become such an important part of all of our lives and if you think now today, some of the just purely – some of the most basic services are only available to people online and so therefore, connectivity has become so much more important and so much more important, obviously, in regional communities, because quite often the availability of the physical assets and access to physical services are not as readily available. And so it's completely unsurprising that there's a lot of concern about how do we maximise coverage and connectivity for regional Australians. So I think the ACCC's decision today is the right one because the way to maximise that is to provoke – is to ensure that competition is there and to ensure the incentive to invest is there. But, Tony -

MR T. WARREN: Yes. No, I was just going to make one point, Ian, and again have to go through the detail of the report, but I did notice that they also flagged co-location and improvements in co-location and we're strong users of co-location. Telstra is a major user and a major supplier of it and I think that's the ultimate – and for everyone else's benefit, if you don't know, co-location is where we share towers, for example – and I think we all see the real benefit of that and any improvements that can come in the way that those processes of co-location work are good for us.

They're good for everyone in the industry, really, and they're particularly good for customers. So I think the kind of collaboration to help get rolling out of networks further and further is absolutely at that kind of co-location, transmission, transparency end, rather than the roaming end, which, as we said, would blunt all the incentives from investment – very pleased to see that that seems to be very consistent with what the draft report says.

MR MARTIN: Very good. Thanks for that, Tony and Andy.

MR LAIRD: Okay. Thanks. Our next question is from John Durie at The Australian.

MR J. DURIE: Tony, I might take you up on that point. When you talk about collaboration, like how many – what percentage of your network would you say is covered – or how many towers do you cover (inaudible) -

MR WARREN: I don't have the exact figures with me, John, but it's in the many hundreds. I mean, it's quite a -

MR PENN: Yes, yes. No, it's significant.

MR WARREN: It's a significant number of towers that are, both people on ours and us -

MR DURIE: How many towers do you have?

MR PENN: We have 9000 altogether, John, and it's in the many of hundreds, but also you would need to put that in context that, obviously, many of the towers are in metro and cities so, really, where co-location becomes important is in regional and rural.

MR DURIE: And how many would you have there?

MR PENN: That's what I was saying, many hundreds.

MR DURIE: In regional areas?

MR PENN: Yes.

MR DURIE: Yes. And outside with Optus, are you with any other company?

MR PENN: We have tower-sharing arrangements with all companies.

MR DURIE: Right. So including Vodafone?

MR WARREN: Yes.

MR PENN: There is – John, the regulatory environment is that all operators have a facilities access obligation to make available their towers and their backhaul to all other operators. That is – and all operators avail themselves of that opportunity.

MR DURIE: Right. Okay. What do you think (inaudible) of the ACCC?

MR PENN: Sorry, can you repeat the question, John.

MR DURIE: Yes. What do you think of the ACCC today?

MR PENN: Well, I think the ACCC is a professional and well-run regulator and has responsibility for competition policy in Australia. I don't think my opinion has changed one way or another.

MR DURIE: Okay. Right. Thank you.

MR LAIRD: Thanks, John. Our next question is from Max Mason, Fairfax.

MR MASON: Hi guys. Thanks for taking another question. I just wanted to ask to what extent does this decision today allow you to keep your ARPUs on mobile at a reasonably high level, given that you're able to charge more because of the size of your network and then sort of following on from that, how does this sort of play out in filling that nbn black hole? I'm assuming that mobile is going to play a big part in that as well.

MR PENN: Sorry, yes, there was a bit of noise in the background. Look, thanks, Max. I mean, obviously, ARPUs in the market are a function of the competitive dynamics and a whole range of different trends. Our strategy is and has always been to offer Australians the best network, greatest capacity, fastest speeds, best coverage, best content, best service. So, I mean, coverage is obviously one element of that, but it's a holistic value proposition that we're seeking to provide our customers. And obviously today's decision means that we'll continue to be able to invest in that – we'll have the incentive to invest in that network coverage differentiation, which is important as well.

As regards the second part of your question, we're not sort of commenting, obviously, on operating outlooks and the like. Today is just very much about the roaming decision but we continue to be committed to our strategy which is network leadership and we've already sort of commented on the implications of the impact of the nbn and we'll obviously give an operating update when we – in conjunction with results in August.

MR MASON: Could I just ask, because I know that throughout the process you've sort of said that this would take away the incentive for regional investment. I mean, have you done, had you done any calculations about what type of quantum that would have been and (inaudible) if that obviously is back on the table from your perspective, although the ACCC did say on its call that Telstra did have a bit of a scare campaign in terms of what it would invest in regional Australia. But can you give an idea about how much you probably would have taken away if the ACCC had declared domestic roaming?

MR PENN: Look, I'm not in the business of taking money away from regional Australia. I'm in the business of putting – investing money in regional Australia. What we've made clear is that over the last six¹ years we've invested around about \$8 billion overall, of which 15 per cent has gone into the last two per cent of coverage. We also identified before today's decision that in our plans was, we could see up to a further billion being

¹ Verbatim ten years

invested in conjunction with co-investment into regional and rural Australia, and so what we're focused on is making that sure we can continue to make those investments.

There's been no scare campaign whatsoever. We've been just laying out the facts as they are. And if you think for one second that regional Australians and farmers in regional Australia can be bullied or scared, then I don't think people really understand regional Australians. They're – they've got very strong opinions. They know what's in their best interests and I think they've just been vocal in expressing that.

MR LAIRD: Thanks, Max. Next question is from Mat Dunckley at Fairfax.

MR M. DUNCKLEY: Yeah, g'day. Look, I'd like to pick up Max's point there. So Sims was quite adamant that Telstra had run a scare campaign. Another way of looking at that is that's effectively accusing Telstra of making false statements. That's actually a pretty serious allegation, isn't it? And he also agreed with you entirely that farmers would see through any false statements and he said that they had seen through Telstra's false statements.

MR PENN: Well, I think what regional Australians have said overwhelmingly is what's most important is coverage, and what the ACCC's conclusion is, is that that is also important and the incentive to invest is important and that we have an efficient and effective mobile industry in Australia, and our strategy has always been to differentiate on network quality and network leadership, part of which is coverage – not the only part of it. And so, look, I think they're the simple facts.

MR DUNCKLEY: Okay. So that doesn't really answer the question, though. So my question is, I suppose, do you stand by all the claims that you've made in the face of the ACCC boss saying that he thinks that they were unfounded?

MR PENN: We've – all we've done is laid out the facts about what we've invested in regional and rural Australia in the past and what our plans are to invest in the future. It has been as simple as that. We're not making any claims. We've just been laying out the facts.

MR LAIRD: Okay. Thanks, Mat. Question from Petroc Wilton.

MR P. WILTON: Hi, Andy, hi, Tony. Just a quick one. At the end of its paper, the ACCC has also suggested there might be scope to make more use of the nbn, nbn assets in extending mobile coverage for operators. Rod on the call earlier, he suggested that might be something of a stick to use, if, I think, the mobile market shouldn't function quite as well as he'd like. Perhaps he could use – perhaps the ACCC could get nbn leant on rather more heavily. What are your thoughts on extended use of nbn shared infrastructure? I know their – what do they call it – their cell site access backhaul thing has been a bit (inaudible)

MR PENN: Look, I think the main point, Petroc, is the conclusion today of the ACCC is that we have a very competitive and effective mobiles market in Australia, and I think we all know on this call today – and it's not just Telstra's network – when we compare the quality of mobile communication in Australia today internationally, it is world-leading. That's both I think subjectively or anecdotally the case as we all travel around the world, but it's also factually the case on a number of surveys that compare global telecommunication companies, and so we have an effective, we have a high-quality mobile network.

We also have the uniqueness of a very large geographic scale with a relatively small population, and so therefore, extending that connectivity to regional Australia and making sure the incentives to invest is critically important as well. I mean, I think as we look forward into the future, I see a world where all networks and types of technology are important, whether they're fibre, whether they're copper, ADSL, VDSL, whether they're mobile, satellite – all network is important just to cope with the scale and volume of traffic that we see in the future.

And I think also increasingly in the future how those networks work together and how we can optimise to get the best coverage and the best performance for all customers is what's critically important, and so I think fixed and mobile – those sorts of strategies are important. Those sort of strategies we look at today. Now, as regards the network – sorry – the nbn's role precisely in that, I haven't actually read the detailed report yet, I haven't had a chance to, so I couldn't comment specifically on that particular point.

MR LAIRD: Thanks, Petroc. Last question's from David Spotswood from Shaw and Partners.

MR D. SPOTSWOOD: Thanks. Congratulations on the win for you today. I mean, I'd be interested in any sort of comments or thoughts that you have on how you're going to respond to TPG in terms of pricing on ARPU or what is the thin market share. Thank you.

MR PENN: Look, I think, David, our strategy on mobiles remains unchanged. It's around network leadership. And the fact that we announced a further significant strategic investment last year I think is evidence of that, which is really about how do we – and it's not just on mobile, by the way, on fixed as well – but how do we prepare for a world of 5G, which is going to be critically important, particularly in regional Australia, given the role connectivity can play in agricultural technology as well. So that's where our point of differentiation will be.

And the job for us is to deliver a great outcome and a great service and a great experience for our customers, and that's what enables us ultimately obviously to make a return on the capital that we invest. I mean, ultimately, obviously, I can't sort of comment on where ARPUs in the market goes. That's a whole range of different factors.

But what I can do is continue to focus on where our points of differentiation are, and the ACCC decision – draft decision today is important in the sense that one of our areas of differentiation that we've invested very, very heavily in has been in providing both coverage as well as quality, and the fact that the draft decision supports continued investment in that differentiation is good, because it means we can continue to deliver that to regional Australia.

MR LAIRD: Thanks, David. That's all we have time for today, so thank you, Andy, thank you, Tony, thank you everyone for your time on the conference call today and enjoy the rest of the day.

SESSION CONCLUDED