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ELECTRONIC LODGEMENT

Dear Sir or Madam

"COVID-19" update - transcript

In accordance with the Listing Rules, I attach a copy of the transcript from the analyst and media briefing today in relation to Telstra's COVID-19 update, for release to the market.

Authorised for lodgement by:

Sue Laver
Company Secretary

Operator: Thank you for waiting everyone, and welcome to Telstra's call this morning on the ASX release. I'll hand you over to Ross Moffat.

Ross Moffat: Hello everyone, Ross here, Telstra's Head of Investor Relations. Welcome to the call today. We have Andy Penn and Vicki Brady on the call. Andy will make a few opening remarks, and then we'll move to Q&A initially from the analysts and then from the media. Over to you Andy. Thank you.

Andy Penn: Thanks very much Ross, and thanks everybody for hooking in this morning. It's obviously very challenging and unprecedented times, and COVID-19 and the necessary responses to that are clearly having a profound impact on business right the way across the country. For Telstra specifically we now have more than 25,000 people successfully working from home. And I say successfully with some pride, because we've managed to implement that quite quickly. We're supporting many of our customers as they grapple with the challenge of shifting to working and studying from home.

But I think clearly telecommunication plays such a critical role in all aspects of people's lives in the economy, and never more so has this been demonstrated than in the current environment as a result of the restrictions that have been put in place. I think it's also at times like these when big business can show leadership and make a contribution to the national response. And that's absolutely what we're doing at Telstra.

I think it's clearly in all of our interests for every company, organisation, and individual to play a role in ensuring that Australia comes through this period as strongly as possible, and that as many businesses as possible are still here when we get through this crisis. That's in the country's interests, it's in Telstra's interests, it's in all of our interests.

So we've been looking at every aspect of our business to see what more we can do for our employees, for our customers, for our suppliers, and the economy more broadly, whilst at the same time continuing to maintain our focus on long term value creation for our shareholders. And so whilst it's critical that we do that and maintain a stronger position, we also believe that there are some additional initiatives that we can undertake now to support the broader economy. And that's the purpose of the announcements today.

So I'll just take us through quickly what they are. Firstly, we are putting on hold any further job reductions as part of our T22 program. And so whilst we'll continue to focus on productivity, to reduce our underlying fixed costs by $2.5 billion by the end of FY22, we will not announce any further job reductions over the next six months.

Secondly, we will recruit an additional 1,000 temporary contractors in Australia to help manage call centre volumes. And you will see that we reached out to Qantas as an example, to see if we could help respond to their announcement where they're needing to reduce their headcount.

And we already have a number of Qantas employees coming through that process.

Thirdly, we will bring forward $500 million of Capex from the second half of FY21, which is effectively the first half of the calendar year of 2021, and bring that forward into this calendar year, both FY20 and the first half of FY21. And that capital will be deployed to increase capacity in our network, including further accelerating, as we had been previously, but further accelerating the rollout of 5G and clearly injecting much needed investment into the economy at this time.

Fourthly, we'll be providing relief to small business and consumer customers who are unable to pay their bills by suspending all late payment fees and disconnections until at least at the end of April, and at which point we will further review that. We already have in place many procedures and hardship measures in the ordinary course that we deploy for our customers and small businesses that have challenges, as indeed we did through the bushfires, but this is actually more broadly for all small business and consumer customers that are unable to pay their bills at this current point of time, to ensure we can continue to support them.

And then we will also be confirming essentially that for any sponsorship that we have currently, whether it be for a cause or for a sports code, or those types of arrangements, any one of those which is due to effectively expire within the next 12 months, or sorry, within this year, we will confirm that we will extend it for a further 12 months because clearly a number of those organisations are facing incredibly challenging times as they're having to cancel events. And so that enables us to provide support there.

So these are the measures that we're announcing today. They're in addition to the others that we've already announced, including the provision of unlimited data allowances on fixed broadband services for our consumer and small businesses, and also extra mobile data for consumer and small business customers. And of course, in addition to the extra paid leave were providing to our employees, including casuals. And then finally, just noting that we will also pay our interim dividend next week, which will distribute $951 million to our shareholders which will be a further stimulus.

So it's obviously difficult to assess the full impact of COVID-19, or rather the long term impact of COVID-19 at this time. The impact on Telstra, like many businesses, we ultimately expect it to be material, but it will depend on how the situation, and in particular, the impact on the economy and our customers evolves. But based on what we know today, including the financial impact of the measures that we've just announced, our current outlook does remain within the range of our FY20 guidance as we set out at the half year. However, the outlook would be at the bottom end of the range for both free cashflow and underlying EBITDA, the bottom end of the range for the $0 to $500 million growth in underlying EBITDA, excluding the in-year NBN headwind. And then at the top end of the range for Capex given the bringing forward of the Capex that we are proposing.

Obviously, there's likely to be more impacts for us from a financial perspective through this unprecedented period and it's a rapidly evolving situation. So therefore, notwithstanding our outlook on market update today, we'll obviously continue to monitor the effect of COVID-19 on our business and make any further updates if they are necessary. But in the meantime, I think it is in all of our interest to do everything that we collectively can to ensure that the country, the economy comes through this as strongly as is practical. So hence our announcement today. And with that, those comments, Ross, I'm happy to hand back to you for Q&A.

Operator: Thank you. The first question we have is from Kane Hannan from Goldman Sachs. Go ahead, please.

Kane Hannan: Morning, guys. Great work on the initiatives. Just a couple from me, please. Firstly, just comment on there's no change in your income guidance for this year, Andy? And just any comments you can make around how revenues have been performing since February. Secondly, just the Capex pull forward. Comment on whether it's reasonable to expect that Capex will decline in FY21 as a result, or whether most of that pull forward falls in first half 21? And then finally, just the NBN one-off payments that were in the press this morning around delaying the forced migrations. Should we be expecting any impact on the timing of those payments in your results? Cheers.

Andy Penn: Thanks very much, Kane. I mean just one quick comment form me. I'll let Vicki handle most of them, but I mean on the Capex point, this is, it's definitely an acceleration bringing it forward into FY20 and he first half of FY21. It's not changing our medium term guidance on Capex, so we're not suggesting any incremental Capex from that point of view. But at this stage, it's bringing forward for that investment into the economy right now. But, Vicki, maybe I'll ask you to comment.

Vicki Brady: Yes, thanks, Andy, and thanks, Kane, for the questions. So, if I start with income. In terms of the most immediate effects we are seeing, it will be no surprise that international roaming we have seen immediate effects on that even in the month of February and obviously with the current situation in relation to international travel around the world, we would expect that to continue. So, that is from an income point of view, the most immediate effect. You will see in what Andy has just spoken to in terms of our guidance range on income it remains unchanged at this stage. So, but international roaming certainly effected, is our most immediate impact there.

On your last question, which related to the NBN one-off, yes, there is going to be a pause on the mandatory disconnection of customers through this period. We have assessed the NBN impacts and again we remain inside our range on the NBN net one-off. And with no change there even with that timing impact factored in.

Kane Hannan: Yes, guys, thanks very much.

Operator: And the next question we have is from Eric Choi from UBS. Go ahead, please.

Eric Choi: Hey, guys, thanks for the questions. First one, can you just quantify how much lower bond rates could have potentially had on this guidance update? I just ask because obviously that's non-cash and you could potentially catch that back up in future periods. So, if you could help quantify that, that would be useful. And then just on revenues, was it, I'm not sure if you covered off on this, but have we actually captured I guess the negative impact from lumpy NAS activity and potential downside to enterprise revenues if, you know, from small businesses is that actually captured in this update as well? And then just lastly, on the dividend outlook. I guess today reduces underlying EPS by 1.5 cents. And as we discussed you may lose some one-off NBN disconnection payments from this year as well. The question is to what extent is the board prepared to exceed your stated payout ratios in the short term if required to maintain a 16 cents dividend. Thanks.

Andy Penn: Thanks, Eric, it's Andy. I'll maybe just comment on that last point and then ask Vicki to comment on the bond rate and the NAS revenues. Look, on the dividend, I mean the first point we wanted to do was to reassure shareholders, because I know some companies have delayed payment of declared dividends, that we will be paying our interim dividend next week. Which is almost $1 billion dollars, obviously which is an important stimulus into the hands of our shareholders and to the economy. We haven't said anything further or updated our dividend policy any further than that, which has previously been.

And so therefore, those guidance guidelines around the policy of 70 to 90% payout ratio and in the order of[1] 75% over time of the one-offs, you should assume that continues to be our current dividend policy. I mean it's obviously an incredibly dynamic environment, so I wouldn't want to make any decisions for the board. But there's been no change to the divided policy or the parameters. But, Vicki, do you want to take the other two?

Vicki Brady: Yeah, absolutely. Thanks for those questions, Eric. So, firstly your question on the bond rate. Yes, obviously movements in the bond rate down impact us from our accounting EBITDA point of view. Because we need to revalue employee entitlements, and so what this update does factor in is all of the year to day impacts we have already absorbed. However, the bond rate is clearly something that remains uncertain and difficult to predict. So, we haven't at this stage factored in any further downward movement in the bond rate. It is something we're monitoring closely and will continue to keep a watch on. In terms of the negative

[1] Verbatim "up to"

impact in terms of enterprise and in particular NAS, I thought it might be helpful if I just talked to, I will get to it as one of the impacts.

But in terms of the most significant things we are seeing immediately that are causing us to head towards the bottom end of our underlying EBITDA guidance. Firstly, there is the international roaming impact, which we are seeing immediately. And we can clearly quantify that one. The second thing we have factored in is obviously there are a broad range of initiatives we have already taken for customers. And the new ones that Andy has just announced today. Things like the providing our consumer and small business customers with unlimited data allowances on fixed broadband and extra mobile data on their mobile. Also, suspending the late payment fees and disconnections of consumer and small business customers until the end of April. So, we have factored all of those things into our outlook we're providing today.

And then the third piece is the piece you have asked specifically on, which is what is the possible impact on our customers and how that will then flow into our business and one of the first areas we are starting to see some of that impact is absolutely our enterprise customers. And you've hit exactly on the point we have factored in, which is we start to see naturally big enterprise customers starting to pause major projects or changes that they were planning to undertake. And that does quickly flow into our NAS business. In particular, professional services as some of those things get paused, which is a natural reaction in the current environment. So, they are the three broad categories of areas that we can see at the moment. Clearly, it is a changing situation and we will keep looking at that and updating as necessary. But, yes, those factors as we know them today are included in this updated outlook.

Eric Choi: That's very helpful. Thanks, Vicki and Andy.

Operator: The next question we have is from Eric Pan, from JP Morgan. Go ahead.

Eric Pan: Morning, guys. Thanks for the update and hosting this call. A few questions from me as well. So, I'm just trying to understand, you know, how much of the lower EBITDA guidance, if you haven't changed your revenue guidance, how much of the lower EBITDA guidance is the result of a delay in the job reduction and hiring of temp staff versus the loss of revenues in the areas that you've spoken to. And then secondly, what's the reasoning for bringing forward the extra $500 million for 5G this year. Are you expecting a capacity strain on the network? And then lastly, you have $1.5 billion of debt maturing this year. And then $2.8 billion over the next 12 months. What do you see in terms of the credit marking in terms of seeking refinancing of these debts?

Andy Penn: Thanks, Eric. Let me take the Capex one, and I'll ask Vicki to comment on the other two. The reason for bringing forward the $500 million of investment, and it is a bring forward as I mentioned to Kane, is really twofold. One is we're looking at what we can do to inject stimulus into the economy while still focusing on maximising value for shareholders and supporting our customers and our people. And deploying the Capex is one thing that we can do because there's much needed investment in the country at the moment. And so by doing that, we play a role there.

But also we can obviously accelerate our program of increasing capacity and supporting the network and supporting our roll out of 5G. I mean obviously if large proportions of the population start working from home and studying from home, that essentially shifts volumes of data onto the retail network, as NBN and mobile. So yes, it plays some role in helping us improve capacity there. But it's also for rolling out our 5G network. And we think net net it's a benefit for the country, but it's also a benefit for our customers as well. Vicki, I might get you to take the other two.

Vicki Brady: Yeah, thanks for those questions, Eric. So, on the first one in relation to updating our outlook to the lower end of underlying EBITDA guidance. In terms of what's the predominant driver in there, it is absolutely the impacts we have seen in terms of the initiatives we have taken for our customers and the immediate impact we are seeing on our customers. Whether that be international roaming reducing, whether that be enterprise customers pausing work and projects they had underway.

So, the jobs announcement today, there will be some pluses and minuses in our cost. However, the thing that really puts us towards the lower end is, are the other initiatives that I've spoken to. So, the things we've announced, the impacts on our customers as we see them right now. As to why we haven't updated then why does that not affect income, obviously there's a much bigger range on income than there is on our underlying EBITDA in our guidance ranges. So, it does put us towards the low end of underlying EBITDA. But we have not updated our outlook on income in the same way.

Just on the other point around debt maturing. Yes, you're right. We've got the equivalent of about $1.5 billion dollars of debt maturing next week. We are in a strong liquidity position. We feel it is a very good period to be an A band rated company, and so we are well set up to be able to cope with the maturity of that debt next week. And of course, we are looking out over the 12 months. Again, we see ourselves sitting in a strong position liquidity wise. But as you can imagine, given where debt markets are at around the world and the uncertainty around how long it will stay that way, we continue to take more proactive steps just to ensure our strong position remains exactly that. A very strong position from a liquidity point of view.

Eric Pan: Maybe just a follow up on that. Do you expect to be able to refinance this or you have to use your revolver to fund these in the short term? And are you looking at a potentially higher cost of capital as a result?

Vicki Brady: So, on the short-term question, yes, we will be using our short-term revolver in terms of paying out that debt. I think it's pretty clear at the moment, it's a pretty difficult environment to be issuing new bonds in. So, that's the approach we'll be taking for next week. And sorry in terms of your second question was do we see an increase in cost of capital, is that what you said, Eric?

Eric Pan: That's correct.

Vicki Brady: Look, we've got nothing at the moment in our outlook where we've updated our view on that at the moment.

Eric Pan: I mean just in terms of the debt, the refinancing.

Vicki Brady: The refinancing, the debt that's maturing though is a 10-year bond, so it's maturing at, it's got a much higher rate obviously than current prevailing rates.

Eric Pan: Got it, thank you.

Operator: The next question we have is from Brian Han from Morningstar. Go ahead.

Brian Han: I'm just interested in these times, what impact are you seeing on your corporate network or things like cyber security demand, and also on the actual corporate mobile spending?

Andy Penn: OK, thank you. Look, I think one of the things I would say from a cyber security perspective is that because I'm chairing the Government's Advisory Panel on their 2020 cyber security strategy, so looking at it through a couple of lenses, and the point is that if more people work from home and/or study from home, what that means is effectively more people will be coming in through VPNs and in through firewalls, which creates a different set of dynamics. So it is an important consideration as well as building the flexibility and the capacity to be able to do that. The cyber element of that is something that corporates will and are needing to give greater attention to.

The other dynamic, which, sorry, isn't necessarily your question, but the other dynamic to bear in mind is that on the one hand we need to ensure that the network from the retail broadband network in partnership with NBN and also mobile networks are dimensioned to try and deal with the changing work patterns and data volumes. But actually one of the bigger issues is in fact the applications in IT environments of corporates and also of education departments or schools and universities et cetera, whoever may be working and/or studying from home.

Because it's a different dynamic for people to be logging into applications and systems within effectively the secure environment of a corporate within the office or wherever they may be, than it is actually coming in over the VPN. And so we're seeing some, we've managed to get 25,000 people working pretty successfully from home. But some of the issues that people may experience, which may feel like network issues, they're actually not network issues, they're actually a function of the IT environments and the applications and the configuration and the capacity that corporates have got, which is then going to behave differently when people are coming in over VPNs. But cyber's an important part of all of that.

And then on mobiles, we are seeing an increase in mobile traffic, we're seeing a shift in the peak time of mobile traffic, which was typically around 5:00 pm, it's now trending more towards 2:00 pm in the afternoon. We're seeing, obviously, volumes on the network more generally increase. But it's fairly early days yet. We're one big corporate. We've got a lot of people working from home, and there are other corporates that have gone down that path, but we expect that to increase. And then of course if large numbers of schools go down that path as well, that will be another dimension which we'll need to provision for. And as I say, we're working closely as an industry, and there's a few contention points, but I think we're so far, so good on this front.

Brian Han: OK, thanks Andy.

Operator: The next question we have is Entcho Raykovski from Credit Suisse. Go ahead.

Entcho Raykovski: Hi Andy, hi Vicki. A couple from me. I just wanted to follow up on the international roaming revenues that you mentioned have been impacted. I don't know if you can give us this number, but could you give us an idea of how much you generate annually in international roaming? And if you can't specifically, if you can at least give us an idea of what the margin is on those revenues?

And then secondly the change to your free cash flow guidance to be now at the bottom end of the range. To what extent is that driven by the higher Capex? Is it all just a higher Capex, or are your working capital expectations also changing for the second half, particularly when we take into account that perhaps bills maybe paid later, and you need to factor that in. Thank you.

Andy Penn: Vicki, I might let you take those.

Vicki Brady: Yeah, absolutely. Entcho, thank you for those questions. I'm not entirely sure we disclose our international roaming numbers, but yes, I've mentioned it a couple of times because it is a significant known in terms of the current impact as we see it. The margins on those revenues sit at a reasonably high level, as do our overall mobile business. But I don't think we've talked specifically to those numbers before. But I would just say in terms of the underlying EBITDA headed towards the low end of guidance, international roaming is one of the key components in there.

In terms of free cash flow, why is it towards the bottom end of guidance, it is a number of things. So firstly, as underlying EBITDA heads towards the low end of guidance, that obviously flows through into our free cash flow, so that is one element. A second piece of it is as you just called out, there is a risk that cash flow moves in terms of collections from customers as they come under pressure and we support them through giving them longer periods in which to pay their bills to us. And then finally yes, there could be some impact as well as we pull forward some of the Capex spend. So it's really the combination of those three factors flowing into free cash flow.

Entcho Raykovski: OK, got it, thank you. And maybe if I can throw a very quick follow up. It looks like the fixed cost reduction target of $630 million is unchanged, given that you haven't commented on it, even though you're pausing obviously some of the job reductions. Just interested in whether that's just reflective of the effectiveness of the cost reductions to date?

Vicki Brady: Yes, so our view, you're right, we haven't specifically called it out, and it sits in the same category as our overall view of our outlook at the moment, which is with the information we've got available at the moment, we believe we're on track on the cost out.

Entcho Raykovski: OK, great, thank you.

Operator: And the next question we have is Craig Wong-Pan from CLSA. Go ahead.

Craig Wong-Pan: Hi, first question. Just on your guidance, could you give us a sense for where you were tracking to before these initiatives and before the major impact from the COVID-19 came through? Like were you still tracking towards the middle or the upper end of your range, at the EBITDA line?

And then second question just on your NBN and retail usage, could you give a sense for how much CVC usage has been increasing during this period where people are working from home, and whether the margins on your fixed line business, given the additional allowances that NBN's giving out, whether that means that the margins stay fairly steady?

And then just third point, just on the Capex for FY21, I was wondering whether you could give any sense for what sort of level of Capex will be incurred in FY21, given there'll be some pull forward of expenditure?

Andy Penn: It's Andy, Craig. I'll ask Vicki to take the one on guidance, but my instinct is she won't necessarily comment on the detail of where things were tracking prior to COVID, because I think we made whatever statements we made at the Half Year Results, and so I think we would only be repeating those.

On the Capex point, you can assume that we will be at least at the top end of our Capex guidance, there or thereabouts, absolutely, because I want to try and bring as much of the investment into the economy as soon as we can, and candidly, I don't think it's a downside for us either because it accelerates our 5G and increases capacity. But we have said that we will be at the top end of our Capex guidance for this year, which is would put us at about $3.3 billion, I think, Vicki, so you should assume we will be at least at that level.

And then on the NBN usage. So, as you will have seen it, what NBN have effectively done is they've said "Well, whatever CVC capacity, the

RSP's bought effectively in February[2], we're going to give you 140% of that, for the same price for the next three months" essentially. And so that's helpful. And whilst we've seen some increases, obviously across the retail network, including obviously NBN customers, we're not at that level at this point. But it is early days.

And one of the dimensions is obviously, a telecommunications network, a bit like a road network, you're dimensioning for the peak period. And so the crucial question is, what is the peak period of traffic on the network, because that becomes the pinch point. And so currently, or historically, for NBN retail broadband customers at home, that was around about nine o'clock in the evening, which makes sense because that's when people are all at home and streaming and doing things like that. With people working from home, you can imagine that that working from home activity is going to be happening at a different time to the peak periods.

So the question is really does it change when the peak period is, and how much does it increase the peak period by? And we're still, to be perfectly honest, it's a bit too early to be able to conclude on that, and whether the 40% is enough. But then we also need to think about increased capacity in the transmission network and in the aggregation layers and in the core as well, which we're working through all of those things.

I don't know if there is anything to add on guidance, Vicki, I suspect not, but I'll let you decide.

Vicki Brady: Yes, I'll add one comment, because you're right, Andy, obviously, we provided guidance to the market at the half year. Craig, one thing I would say is, we obviously then monitor what market consensus is post every time we issue guidance. We could certainly see that market consensus on our underlying EBITDA was sitting around the midpoint, and therefore we thought it was appropriate in our outlook based on the information we have at the moment, obviously, there's still uncertainty, but our current view is towards the low end of the underlying EBITDA range.

Craig Wong-Pan: Okay, thanks. That's very helpful.

Operator: The next question we have is Roger Samuel from Jefferies. Go ahead.

Roger Samuel: Oh, hi, morning. I have just got a question on the postpaid branded mobile. Obviously, the ARPU is impacted by the international roaming and also your extra data as well. But what about the TMMC? And also can you comment on the churn rate, how has the churn rate been tracking so far?

Andy Penn: Vicki, are you able to provide comments there?

Vicki Brady: Yes. So I would say, look, in terms of its early days of seeing the impacts

[2] Verbatim "November"

that are going on right now. So yes, international roaming is one component that has hit us immediately. What I would say on ARPU, as we've talked about through the last 12 months, as we've talked about transacting minimum monthly commitment, ARPU is a lagged indicator. And so obviously, we've been talking to those trends on transacting minimum monthly commitment. It takes time to flow through. So ARPU is a lagged indicator. So not immediately hit by things other than as you call out international roaming. So those uplifts we've had in transacting minimum monthly commitment over the last six months, we would continue to expect to flow through as we've talked to previously.

Roger Samuel: Any impact on churn?

Vicki Brady: No, no. Nothing unusual at this stage in terms of churn. In fact, again, I would say through periods like this, connectivity and whether it's mobile or fixed broadband, continue to be more important to our customers rather than less. So we've not had impact on churn as yet.

Roger Samuel: OK. And can I just follow up. I think last you mentioned that the gross margin in mobile would increase by the end of this calendar year. And I'm just wondering if that is still the case?

Vicki Brady: Look, there's obviously a lot unfolding at the moment. But in terms, there's no change to that outlook right now, based on what we've got in front of us, but obviously we've still got a lot of work to do as it becomes clearer the impact on the broader economy and our customers, and for how long this impact might last for. So to be fair, we haven't spent a lot of time. Our first priority has been supporting our customers in the best way we can, understanding the most immediate impacts on FY20 as best we can, and then we will obviously start turning our mind to longer run outlook as it becomes more certain what the impacts could be on the broader economy and our customers.

Roger Samuel: OK, thank you.

Operator: The next question we have is from Sameer Chopra from Bank of America. Go ahead.

Sameer Chopra: Morning. Look, and thank you so much for your initiatives. I think all Australians appreciate it. I'd just like to call that out upfront. So thank you. Two questions. One was just on handset sales and shops. Just your expectations around do you think over the next few months the equipment sales numbers in the Telstra shops may be soft, I'm assuming measures will be put in place there?

And then the second question was, practically, how do you spend the $500 million of capex? Is it more on networks? Is it on IT systems? Just given it's more difficult to get around right now, I was trying to figure out how do you actually go about spending the $500 million? Thanks.

Andy Penn: Thanks Sameer, and thank you also for your comment of support, that's appreciated. And again, I'll make a couple of comments and then see if Vicki wants to add anything. I mean, on handset sales, I mean, I think yes, inevitably, whilst our stores are still open, we have seen a slowdown in foot traffic a little bit. This weekend will be quite instructive in that regard. We've also seen as you would expect to pick up on digital channels as well, but I think there's inevitably going to be some degree of slow down. I think the other dimension is where the Aussie dollar is, or at least where it was yesterday will also be a challenge obviously on handsets, particularly those from the US.

And then on the second point around where we will deploy the $500 million. You're right, it's easier to accelerate investment in network, in capacity and in coverage and in 5G than it is in IT, just because in IT we only have a certain degree of capacity to accelerate IT development. The other issue with IT is that we do a lot of our IT development and investment both onshore and offshore, and we're also having workforce impacts offshore just by virtue of restrictions that have been put in place in different countries.

And so, I mean, the good news is we've got diversity in terms of our workforce, we're across multiple locations obviously in Australia. Actually we have a large call centre base in Australia, something in the order of 4,000 call centre staff, we also do a lot of digital work in Australia as well, but we also do it in multiple different international locations, in Malaysia, in the Philippines, in India, etc. And so definitely those are being impacted.

So I think in summary, more in the network, to your point, in the near term, than in IT. But Vicki, anything to add on either of those comments?

Vicki Brady: No, I think you're spot on Andy. Certainly on the network side is the easier part to accelerate.

Sameer Chopra: Can I just do a follow up? Any issues in terms of sourcing gear, or you think the equipment itself is still coming through, and there's no delays in that supply chain? Thank you.

Andy Penn: Thanks, Sameer. Look, there'll be some issues with that, actually not necessarily so much antennas and cards and radio access equipment necessarily, but other ancillary things, which you don't necessarily immediately think of, brackets and stuff that we need to install equipment and stuff. But we've been in quite a bit of dialogue, haven't we Vicki, with our networks team, and they're pretty agile and able to scale up quite quickly. And I think we're reasonably confident we can deploy that extra $500 million over the balance of this calendar year.

Vicki Brady: Yeah, that's right Andy. And I think it's fair to say our networks team has been working very closely with our key partners in that supply chain, since it became evident there could be impacts, and we have some very strong partnerships there that are helping to ensure we get access to all of the critical pieces that we need for the deployment.

Sameer Chopra: Thank you, and stay safe, yeah. Thanks.

Andy Penn: You too Sameer, thank you.

Operator: The next question we have is Fraser McLeish from MST Marquee. Go ahead. Apologies, just trying to get Fraser through.

Fraser McLeish: Yes, so just wondering if there's any areas you can point to where higher demand for your services might lead to some higher revenues that could offset some of the downside things you're pointing out? So I guess I'm thinking about things, maybe people upgrading to higher mobile plans, or higher-speed NBN connections, or greater use of unified communications, that kind of thing, that would be helpful. Thanks.

Andy Penn: Yes, no Fraser, I think you're spot on. I mean, as I mentioned in my introductory comments, never more also has the criticality of telecommunications been highlighted than in the current situation in response to the COVID-19 restrictions that are essentially in place. We have seen quite a significant increase in requests for capacity upgrades across the corporate sector, and we'll be responding to those as quickly as we can.

On the retail side, to be honest, we have taken the initiative to bestow unlimited data on retail and small business fixed broadband, to essentially those customers that didn't already have it. But you might well see customers choosing to upgrade speed plans. It's a bit too early to say whether we've seen anything material there. And then we've also provided additional data in mobile plans as well. The other thing we've seen an uptick of, quite a significant uptick, is mobile broadband demand, as you can imagine, from small, medium business, as well. It's hard to put any financial parameters around that at the moment, but they're the trends that we're seeing. Anything to add Vicki?

Vicki Brady: No, spot on. The most immediate demand we're seeing, as you said Andy, is in the enterprise market for upgraded capacity and mobile broadband in the consumer and small business market. But too early really, to predict how material it will be.

Fraser McLeish: Great, thank you.

Operator: And the next question we have is from Amelyn Foo from AIA Australia. Go ahead.

Amelyn Foo: Hi. A quick question about the capex. Can you tell me how the capex will be funded? And can you give us a sense of how much liquidity the company has, and if you've got committed bank lines, and if there are any gearing covenants tied to equity prices, market cap and the like? And in the event that the short-term paper market collapses, do you have any other sources of funding available to you that's committed?

Andy Penn: Thanks, Amelyn. You happy to take that one Vicki?

Vicki Brady: Yeah, absolutely. So in terms of the pull forward of the capex, it is just timing wise, pull forward of that $500 million into this calendar year, and yes, confirming we have sufficient liquidity to fund that. I think you had a question around covenants and are any of those linked to our share price. I think that was the question, just confirming?

Amelyn Foo: Well, yeah, well, I'm not too satisfied with the sufficient liquidity answer. Can you give us a sense of how much liquidity in terms of committed bank lines you've got, given that as you all know, the debt market's kind of stuck at the moment, and while the RBA is trying to pump liquidity in, it isn't flowing into credit yet. I mean, it's just started happening yesterday. So it takes some time for the debt markets to unlock in a sense. So do you have any bank lines available to fund capex to fund ordinary activities, etc, and refinances?

Vicki Brady: Yes, yes. So just to address your point. If you have a look at our 31 December disclosures, you'll see we had undrawn committed facilities of $3.2 billion. So they remain in place. We are taking extra proactive steps. Now, they are sufficient. However, obviously in the current environment as you said it is an unusual period in terms of accessing short term commercial paper or long-term bonds. So, we are taking proactive steps to further increase that. But we sit with sufficient liquidity and we are working on the assumption right now that any short-term commercial paper obviously, we can't roll over or refinance and we'll be using our short-term facilities for that.

Amelyn Foo: OK. And in terms of the covenant for the undrawn, committed bank lines, again, I guess is it tied to the share prices, etc, just because the markets are very volatile?

Vicki Brady: No, we've got no issues like that impacting our short-term facilities.

Amelyn Foo: OK. And also, I noticed that you've got some comfort zones for your debt metrics and so on and so forth. So if you increase borrowing to fund for brought forward capex, I assume you probably get closer to the 2.0 times interest coverage metric, by doing so, so has that changed? Is it still, am I wrong and say they'll go closer to two, because it's already at 1.9? Or how do you see that?

Vicki Brady: So based on what we can see right now, in terms of debt servicing metric I think that you're referring to, we still have the view we can remain inside our comfort ranges.

Amelyn Foo: OK. Cool. That's all from me. Thank you.

Operator: And the next question we have is from Nick Harris from Morgans. Go ahead.

Nick Harris: Thanks Andy and Vicki, I just also wanted to congratulate you on the positive social contributions you've announced today, it's great to see that sort of leadership, so, much appreciated.

Two questions from me. One was just around, obviously you talked about the NBN constraints with CVC being released. But just your backhaul network, have you got a reasonable amount of spare capacity to handle the backhaul component of it, if traffic triples or doubles or whatever happens in the next little while? How much flex have you got? And then the second point is just a question really, around your observations. Is it possible to prioritise traffic so that you can prioritise business traffic over kids streaming Netflix or whatever if it comes to that sort of constraint? Thank you.

Andy Penn: Thanks very much, Nick, and thanks for your positive support as well, it's helpful, I think the investment community obviously has a role to play as well, so that's really positive. Look, on backhaul, I mean, our network is very extensive and very wide. And so therefore, there are always pinch points that we're dealing with. And we're learning as we go in terms of what are the implications of this on our mobile network in particular, or specifically to address the question, mobile backhaul. But we're able to move and adapt pretty quickly and put more capacity in where we need to. So I think, subject to a bit of patience from customers, I think we're in OK shape there.

And then on prioritising traffic, absolutely. We already are able to and do as necessary, particularly for things around critical services, that's important. We're also reaching out to streaming companies and gaming companies to think about, ask them to think about how they configure their releases, and also a definition of what they're distributing. And we're also working, as you can imagine, closely with the Government and other critical infrastructure providers to ensure that we have a coordinated approach to that type of traffic management. And as well as engaging with corporates and our own advocacy programming in relation to what people can do to manage their own data usage so that they can work effectively from home and study at home, as well, choosing downloading overnight rather than streaming. Thinking about how the family might access the internet, and manage that amongst the family, those types of things. So there's an enormous amount of work that's going into that.

Operator: Next is James Fernyhough from the Australian Financial Review. Go ahead.

James Fernyhough: Hi, Andy and Vicki. So just a couple of questions. I know it takes a lot of speculation, but looking at the broad picture, a lot of people are saying we're looking at a prolonged recession, depression, possibly. Presumably that will affect Telstra's revenue in all sorts of ways. Could you talk a little bit about what that might look like?

And also, more immediately, it seems like this might, we've talked about NBN wholesale prices a lot. It seems like this might be a good opportunity for the Government, or the NBN, the two to talk to each other about writing down the NBN so it could reduce its wholesale prices so that will be a form of stimulus. I mean, is that something you'd like to see or have you even talked about that with the NBN?

Andy Penn: Thanks, James. Yes, as you say, look, it's really hard to have any type of long-term prediction in the context of the current environment. You know, what it seems to me is that the most significant issue is the sharp downturn in consumer demand as a consequence of the restrictions that have been put in place, and obviously the Government's taking very significant steps to increase stimulus to try and put that confidence and the financial capacity into the hands of individuals and small, medium businesses to support them and navigate through this period.

But the real dynamic is how do we, all the time that there are restrictions in place and/or more extensive restrictions, the ability to actually deploy that, or rather to increase that consumer demand is obviously somewhat constrained. And so therefore, I think, what we're really looking at is, in a for how long do these restrictions need to be put in place? And obviously, as I've said before, I'm not a medical professional so I don't have a point of view on that, we just take the advice from those that are better qualified and obviously from the Government, the Department of Health and the WHO, etc.

I mean, in terms of how it affects us, obviously it's really a function of how it predominantly how it affects our customers. I mean, obviously what the dynamic does show is the criticality of telecommunications. And the fact that actually we can even contemplate large sectors of the economy and the population working and studying from home is in of itself a pretty impressive fact, given the technology and the capacity that's had to be created and invested in to get us to that point. But I think ultimately, it's really the impact on our customers that will ultimately have a flow through to us, and also the impact on the broader economy that we will be impacted by as well. But as you saw, we've announced a number of initiatives ourselves today to try and play our bit in mitigating that impact.

I mean, on the point about NBN wholesale prices, I think what I'd rather do is not comment on that today, because I don't want to make this a political or a contentious dynamic. I think this is a time when we all obviously have to work together to try and achieve the best possible outcome for the Australian economy, which is obviously going to be impacted, and by how much, I don't know. But what I do know is that if we can all play a role, then that's obviously got to help.

James Fernyhough: Okay, thanks a lot.

Operator: We do have one more question, from Rohan Pierce from CommunicationsDay. Go ahead, please.

Rohan Pierce: Hi guys, just a quick one, Andy. Just in terms of the job reductions, does that apply to Telstra's contractor workforce as well, or just your internal workforce? And the other one is just in terms of the hold on job reductions. How many how many roles do you think you would otherwise lose in that six-month period?

Andy Penn: Well, let me answer it this way. We had announced that we would need to reduce our headcount by net 8,000 as part of our T22 program. As at the 31st of December, we had announced 6,900[3]. I'm not saying therefore the balance would have been over the next six months, but let me just provide that context to help give you some sense of what this means.

And then as regards the impact on contractors, this is focused on Telstra employees, albeit we do have a, we're also concerned about contractors as well. The nature of our contracting workforce though is that it comes and goes with individual jobs and projects, and it's changing all of the time. So it's not practical to essentially be able to apply the same approach to contractors. But it absolutely covers our Telstra employees.

Rohan Pierce: OK, ta.

Operator: And that's all the questions we have at the moment.

Nicole McKechnie: OK. That's no problems at all. Thank you very much Michael, and thank you, everyone, for joining us this morning. And we will see you all soon. Cheers. Thank you.

Andy Penn: Thank you.

END

[3] Verbatim "6,300"