

# CommsWire

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## COMPETITION, NBN BRUISE TELSTRA BOTTOM LINE



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# NBN, COMPETITION PRESSURES NEGATIVELY IMPACT TELSTRA

**Telstra chief Andy Penn has flagged the telco is facing a difficult trading period ahead due to the “challenging dynamics” of the rollout of the National Broadband Network and increasing pressure on its margins from competitors.**

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Penn issued his warning in remarks he will make to a JP Morgan summit in Boston tomorrow when he will also stress that increased competition in the market, and the NBN, have eaten into the company’s profits.



“We continue to experience the ongoing negative NBN impact on underlying earnings,” Penn (left) said.

“The National Broadband Network (NBN) in particular has driven a number of challenging dynamics for the industry that collectively point to a difficult trading period ahead.”

According to Penn, the Australian Government is “essentially re-nationalising the fixed access last mile of infrastructure from Telstra to become the nation’s wholesale provider for fixed broadband, transforming Telstra into a reseller of broadband services.”

And, the Telstra CEO says this is having a “very material impact on the economics of the whole industry and has triggered a step change in the competitive environment”.

“In the last 12 months alone we have moved from three big players in mobile and fixed to a situation today where we face a fourth network operator entrant in mobile (TPG) an increasing number of MVNOs and more than 170 resellers of fixed.”

“We are responding to these dynamics to protect and grow our customer base. We have bestowed unlimited data to almost half our fixed broadband base and we recently launched an unlimited domestic data plan on mobile.

“We are the first to do so above the line in Australia, offering 40Gb of mobile data with uncapped speeds and 1.5Mbps capped speeds thereafter.

“Learning from the experience here in the US, better to be first than late,” Penn said.

Penn described the current market as a critical time for the global telecommunications industry, and said demand for core products and services has never been greater.

“We are seeing data volumes increase 50% per annum across both fixed and mobile networks and the range of services supported by our networks increase dramatically.

“Telecommunications is rapidly becoming the backbone of many industries and the dependence on connectivity and the always on society is here to stay.

“On top of this, as an industry we are in a transition to the next generation of technology as we move to software defined networks, network function virtualisation and 5G.



“This is not just about another G for mobility - SDN/NFV and 5G in conjunction with data analytics, AI and the whole world of the internet of things means this technology transition will be more profound than any we have seen before in telecommunications.”

Based on April year to date results and 2H FY18 current expectations, Telstra has reported the current outlook against FY18 guidance is:

- Income expected around the middle of the \$27.6 - \$29.5 billion range
- EBITDA is expected at the bottom end of the \$10.1 - \$10.6 billion range
- Net one-off NBN DA receipts less NBN net C2C2 is expected at the mid to upper end of the \$1.4 - \$1.9 billion range

Penn said Telstra continues to focus on reducing costs and expects FY18 underlying core fixed costs to decline by approximately 7% - with incremental restructuring costs of approximately \$300 million in FY18, compared to previous guidance of \$200 – \$300 million.

Penn said he continues to be optimistic about the long-term future of the industry and for Telstra.

“We continue to see strong demand for our services and increased growth in data volumes as connectivity becomes more important.

“We have made significant investments which are already delivering benefits and provide us with the platform to support a range of new initiatives we will be launching.”

Telstra's share price dipped sharply on the announcement from the telco, falling more than 4% to \$3.07 in the first hour of trading on the ASX.

**Peter Dinham**

## VODAFONE UNAFFECTED BY US BAN ON ZTE, BUSINESS AS USUAL

In contrast to Telstra, Vodafone Australia will not have to take any ZTE devices off its shelves in the wake of the Chinese firm's announcement last week that it was halting its main business activities in the US.

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*CommsWire* understands that Vodafone has only one ZTE phone among its range at the moment and that device, the E8, has reached its end of life.

But doubts have now been cast on whether any telco will have to pull devices, after [a dramatic policy reversal](#) by US President Donald Trump on Sunday US time.



Trump tweeted: "President Xi of China, and I, are working together to give massive Chinese phone company, ZTE, a way to get back into business, fast.

"Too many jobs in China lost.

"Commerce Department has been instructed to get it done!"

ZTE Corporation, banned from buying components from American firms for seven years, is trying to convince US authorities that it failed to meet the terms of a settlement over breaking export sanctions due to problems within its own processes, and not due to a plan to deceive.

*The Wall Street Journal* [cited](#) a person who was familiar with the company's filings as saying it had told US authorities that the penalty levied on it was disproportionate to the offence, adding that the ban would hit US businesses to the tune of billions.

According to a *Reuters* [report](#), ZTE paid more than US\$2.3 billion to 211 American exporters in 2017.

Citing a senior ZTE official, the news agency reported that ZTE had paid more than US\$100 million each to Qualcomm, Broadcom, Texas Instruments, Xilinx, Acacia Communications and Sandisk.

Last Thursday, Telstra [announced](#) that it would be taking 22 ZTE mobile devices off its shelves as there was no guarantee of continued supply in the wake of the firm's current situation.

*CommsWire* has also contacted Optus to find out whether it has any ZTE devices on offer and, if so, what it plans to do.

Sam Varghese



John de Ridder

Telecommunications Economist

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## IN TWEET, TRUMP SIGNALS REVERSAL OF US POLICY ON ZTE

**US policy on China's ZTE Corporation appears to have been changed, with US President Donald Trump tweeting that he has asked the Commerce Department, which imposed a seven-year export ban on the company, to help it "get back into business, fast".**

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On Sunday US time, Trump tweeted: "President Xi of China, and I, are working together to give massive Chinese phone company, ZTE, a way to get back into business, fast. Too many jobs in China lost. Commerce Department has been instructed to get it done!"

The US and China are holding talks to try and avert an all-out trade war and Trump's tweet came ahead of a second round of talks scheduled for this week. In 2017, ZTE [paid](#) more than US\$2.3 billion to 211 American suppliers.

*Reuters*, quoting people familiar with the matter, [reported](#) that in the first round of talks, held last week, China had asked the US to ease the crushing sanctions on ZTE; the company has also [asked](#) the US to reconsider the ban .

Companies like Acacia Communications, Oclaro, Lumentum Holdings, Finisar Corporation, Inphi Corporation and Fabrinet have seen their share prices fall after the [ban](#) on exporting components to ZTE was announced last month.

*Reuters* quoted a Washington lawyer, Douglas Jacobson, as saying: "“This is a fascinating development in a highly unusual case that has gone from a sanctions and export control case to a geopolitical one.

"There’s no legal mechanism for this. How this will play out remains to be seen. They are not simply going to be able to resume business as usual." Jacobson acts for some ZTE's suppliers.

The US Department of Commerce imposed the ban on ZTE in April, saying at the time that it was due to alleged false statements made by the company during talks in 2016 over a charge of shipping telco equipment to Iran and North Korea.

As a penalty, US firms cannot sell parts to ZTE for seven years.

ZTE was fined US\$1.19 billion in March 2017 and also agreed to a seven-year suspended export ban, which would take effect if it was found to be in violation of the Export Administration Regulations.

Subsequently, the Department of Commerce claims to have found that statements made by ZTE to the Bureau of Industry and Security were false.

Australia's biggest telco Telstra has [taken](#) 22 ZTE devices off its shelves after the company said it was [halting](#) its main business activities in the US.

**Sam Varghese**

## AUDA APPOINTS THREE NEW DEMAND CLASS DIRECTORS

The au Domain Administration, the organisation that administers the Australian domain namespace, has appointed three new directors from the demand class to its board.

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Holly Raiche (below), Damian Smith and Nigel Phair will join the board, with Smith's term to expire at the 2018 AGM and the terms of the other two to end at the following year's AGM.



In a statement, auDA chair Chris Leptos said there had been 30 nominations for the posts.

The organisation has to hold [a special general meeting](#) by 28 July to consider a push by some members to have chief executive Cameron Boardman, Leptos and directors Suzanne Ewart and Sandra Hook sacked.

It has also had to deal with [a government review](#) that found its current management framework was no longer fit for purpose.

Dissatisfaction within the ranks of auDA broke out [into the open](#) last month when one member, Jim Stewart, the chief executive of StewArt Media, led a call for the ouster of Boardman, Leptos, Hook and Ewart.

Leptos [has said](#) that the practices of several former auDA directors had

been referred to the police in Victoria.

The major irritant was the decision by the board to change Australian domains from .com.au and similar suffixes to .au.

That move has now been put off till at least the second half of 2019.

**Sam Varghese**

# SAMSUNG LAUNCHES GALAXY A8 (2018) TO CHALLENGE HIGH-END

**In a world where plenty of competition exists in the entry-level, mid-range and upper mid-range space, Samsung hopes to tempt you into spending more to get a better phone.**

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In 2018, there are some impressive Android phones at a range of price points, more so than ever before, but as always, there's a reason why a flagship phone is \$1000 or above, and a reason why a phone is \$150 – and every price point in between.



While Samsung also has plenty of phones at various price points too, its A-Series range is the one that effectively sits in the upper mid-range space, with not quite all the features as the S-series, and without the higher price tag, but still with enough desirable features people want to justify the higher price than sub-\$500 models.

So, what is inside the Galaxy A8, and what does Samsung have to say about it?

Well, it features "a Dual Front Camera, a large Infinity Display and ergonomic styling that draws on Samsung's design heritage in developing beautifully crafted metal and glass devices", or so the company says.

In addition, we're told that "the Galaxy A8 deliver features and functionality synonymous with the Samsung Galaxy portfolio including":

- IP68 water and dust resistance,
- Super AMOLED 5.6-inch FHD+ Infinity Display with 18.5:9 screen ratio
- Fast charging battery (with compatible fast charger)
- Incredible front and rear facing camera
- Gear VR support
- Integration with Samsung services like Samsung Pay
- There's also a fuller list of specs below.

Samsung's local vice-president of IT and Mobile, Garry McGregor, said: "The Galaxy A8 is an exciting product for Samsung, offering a beautiful form and design, rich feature set, and sophisticated smartphone experience that Australians have come to expect from a Galaxy device.

“Samsung is committed to ensuring that we provide Australians with the best possible smartphone experience across our entire Galaxy portfolio and we strive to ensure these experiences are accessible.”

The company then states that the Galaxy A8 "forms an essential part of the Samsung mobile range, along with the Note, S- series, and J-series devices", with the latest offerings in these categories including the "Galaxy S9 and S9+, Note8, J5 Pro and J7 Pro".

“Offering a mobile portfolio that is tailored to the needs of Australians and that provides choice is a core pillar in our approach to make the best in Samsung mobile technology available to our customers, whatever their needs may be,” McGregor added.

We're also told that the "Galaxy A8 also supports separately available microSD cards, allowing you to expand device storage capacity by as much as 400GB, and is the first in the A series to support Samsung's Gear VR" virtual reality headset.

Billed as being "great for watching movies or playing games", Samsung proudly boasts that "the Galaxy A8 sets a new standard for the A series range. The Infinity Display goes beyond the bezel, offering an immersive 18.5:9 display ratio, allowing users to view a whole scene across the screen for the ultimate cinematic experience".

"Snap bright, clear selfies with the 16MP F1.7 rear camera and 16MP+8MP F1.9 Dual Front Camera, in nearly all types of lighting and backgrounds.

"The Dual Front Camera is made up of two separate cameras, so users can switch between the two to take the perfect selfie in all conditions – from close-ups to portrait shots with a clear and crisp background. And with the advanced Live Focus feature, you can easily adjust the bokeh effect before or after you take the picture to create high-quality images".

Then there's the "video digital image stabilisation, which Samsung bills as "exceptional for creating social stories" as the tech "helps to keep videos steady, and an added hyperlapse feature gives users an easy way to create time-lapses".

Available now in Black and Orchid Grey finishes from Samsung Experience Stores, Samsung Studios and the Samsung e-Store with an RRP of \$649, and through authorised retail and operator partners, the only thing Samsung didn't also do was to announce whether the Galaxy A8+ was coming to Australia or not.

Given Samsung made no mention of the effectively identical A8+ model, but with 6-inch screen, which can be seen here at Samsung's Global A8/A8+ site, it probably isn't coming, although I guess you never know.

Also, the A8 comes with Android 7.1.1 – there's seemingly no word as yet on if this will receive an update to Android 8.x Oreo, or the Android 9.x "P" version later this year.

**Alex Zaharov-Reutt**

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