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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra delivers FY20 results in line with guidance, maintains dividend, provides guidance for FY21

In accordance with the Listing Rules, I attach a copy of a market release, for immediate release to the market.

This announcement has been released simultaneously to the New Zealand Stock Exchange.

Authorised for lodgement

Sue Laver
Company Secretary



Telstra delivers FY20 results in line with guidance, maintains dividend, provides guidance for FY21

- Reported Total Income, NPAT and EBITDA in line with market expectations
- Strong growth in numbers of mobile services
- Good progress on T22 strategy which is more than halfway through
- Final dividend of 8 cents per share, bringing total dividend to 16 cents per share
- On track to achieve \$2.5 billion net cost reduction target in FY22

Thursday 13 August 2020 – Telstra today released its full year results for financial year 2020, which were in line with guidance and market expectations.

The Board resolved to pay a fully-franked final dividend of 8 cents per share, comprising a final ordinary dividend of 5 cents per share and a final special dividend of 3 cents per share bringing the total dividend for FY20 to 16 cents per share. This will see \$1.9 billion returned to Telstra's shareholders for the year.

Telstra also provided financial guidance including assumptions on a range of metrics for FY21, giving the market clarity on its expectations for the year ahead.

CEO Andrew Penn said the results showed that through a challenging period Telstra continued to deliver for customers, support its people and the community, while generating long-term shareholder value.

"2020 is proving to be an enormously challenging year for everyone – for governments, businesses, communities, and for all of us as individuals. The emotional, mental and economic stresses as a result of the COVID-19 pandemic and necessary restrictions are profound," said Mr Penn.

"Through this extraordinary disruption – both the COVID-19 and bushfire crises, Telstra was challenged to adapt, to find new ways of supporting our customers, our people and the country in a time of need. I am very proud of the way our team responded, while dealing with the implications on themselves personally.

"The COVID-19 period has also highlighted that connectivity has never been more critical. We have witnessed a huge acceleration in the digital economy, an area now critical to a fast economic recovery where Telstra has a key role to play. The reasons we introduced T22 two years ago – a need to rapidly simplify and digitise, to remove customer pain points, to remove legacy systems and processes – have never been more relevant and necessary.

"Importantly, it says a lot about the strength of our business and strategy that through all this we were able to meet guidance, maintain the dividend and provide guidance for the year ahead. We have also retained our strong balance sheet and A-band credit ratings."

On a reported basis Total Income¹ for the year decreased 5.9 per cent to \$26.2 billion and NPAT decreased 14.4 per cent to \$1.8 billion.

Reported EBITDA was \$8.9 billion. After adjusting for lease accounting on a like-for-like basis², EBITDA decreased 0.3 per cent to \$8.4 billion.

On a guidance basis³, underlying EBITDA declined 9.7 per cent to \$7.4 billion. Excluding the in-year nbn headwind⁴ – which gives the clearest view of the long-term business – underlying EBITDA grew by approximately \$40 million, with growth in the first half of the year offset by a second half decline.

Telstra continued to grow its customer base in FY20, in spite of a competitive and challenging market. At the end of June, and while reaching approximately one third population coverage with its 5G network, Telstra also announced refreshed plans for mobile customers which included increased data allowances and saw 5G included on most plans.

Telstra's multi-brand strategy continued to deliver subscriber growth, particularly in mobile where it added 240,000 retail postpaid handheld mobile services, including 154,000 from Belong. It also added 171,000 retail prepaid handheld unique users, 347,000 Wholesale services and 652,000 IoT services.

Overall mobile revenue declined \$461 million in FY20. Reported postpaid handheld ARPU declined 8.2 per cent, or 6.8 per cent excluding the impact of COVID-19 on international roaming.



In the fixed business, revenue continued to be impacted by nbn migration, alongside the continued decline of voice and legacy services and operational issues. Through a focus on differentiated customer experiences including the Telstra Smart Modem, the company continued to have a market-leading share with 46 per cent of the estimated nbn market (excluding satellite).

"nbn wholesale pricing remains the largest negative impact on our fixed business. Without some sort of long-term change leading to improvement in RSP economics, the risk of retail price increases, reduced customer experience or customers moving onto other networks such as 5G will increase. In Telstra's case the profitability of reselling the nbn is negligible at best – that is not sustainable," said Mr Penn.

"Notwithstanding these comments I do want to acknowledge and applaud nbn's response to COVID. nbn acted swiftly to increase capacity to RSPs during this time at no charge enabling RSPs to support their customers as they moved quickly to work and study from home."

During the year Telstra reduced underlying fixed costs⁵ by \$615 million, or 9.2 per cent. This brought underlying fixed cost reductions achieved since FY16 to \$1.8 billion and put Telstra on track to achieve its \$2.5 billion net cost reduction target in FY22.

Telstra has announced 12,000 indirect role reductions and 7,300 direct workforce role reductions since it launched T22 in June 2018. As at the end of June 2020, the direct workforce was around 5,700 lower than two years ago. This figure includes 1,600 new roles recruited like software engineering and cyber security – and some additional roles brought on board in response to COVID-19 to mitigate workforce offshore capacity issues.

"In March we put all job reductions on hold for six months to give our people certainty during this difficult time," said Mr Penn.

"As we approach the end of that pause, it is clear that the impacts of COVID-19 will be with us for some time. We have therefore made the decision to keep our T22 productivity role reductions on hold for permanent Telstra employees in Australia and internationally until February next year. We know many are doing it tough at the moment and we hope this decision will give some certainty to our people in what is a very challenging time for Australia – and many of the countries in which we operate.

"There will be some roles that finish in the interim where projects have come to an end or work is no longer required, volumes have declined, or fixed term contracts end particularly related to our involvement in the construction of the nbn. However, for the majority of our teams this will continue to give them some certainty at least until the new year."

Seeing the benefits of T22

Telstra confirmed that nearly three quarters of the measures used to monitor progress against its T22 strategy were now either completed or on track for delivery.

Digital engagement grew substantially, accelerated by the impacts of the COVID-19 pandemic. By the end of FY20, over 71 per cent of Telstra's service transactions happened via digital channels, up from 53 per cent at the end of FY19.

The new My Telstra app, which replaced the Telstra 24x7 app, was downloaded 3.7 million times, providing customers with a new two way in-app messaging service, the ability to track orders, and new troubleshooting tools.

When the COVID-19 pandemic struck, the progress already made on T22 enabled Telstra to fast-track the digitisation and automation of many of its processes and systems and rapidly shift its office-based employees to working from home.

"This acceleration to digital channels and the workforce capacity challenges we have faced offshore have also provoked our thinking on our customer service model for the future. As a consequence, we will be investing even more in digital including messaging. Under our T22 strategy our aspiration had been to reduce the number of calls to our call centres by two thirds by FY22. We are already very close to that run rate now," said Mr Penn.

"This means that over time we will need a smaller call centre workforce for our consumer and small business customers and our aspiration is that by the end of our T22 program all in-bound calls from these customers will be answered in Australia. Today we are already at more than 60 per cent."



Telstra Plus passed one year of rewarding our customers, with more than 2 million enrolled members – a milestone that was achieved ahead of schedule. 4.3 billion points have now been redeemed by customers.

“T22 remains our biggest focus and the things we set out to achieve when we launched the strategy – radically simplify and digitise, remove customer pain points, remove legacy systems and processes – remain just as relevant as the day they were announced,” said Mr Penn.

“We are now past the halfway point in delivering T22 and while we expect to see challenging conditions continue in FY21, our strategy means we’re well positioned to respond to whatever lies ahead.”

Throughout the year Telstra continued its clear leadership in 5G. More than 10 million people now live, work or pass through the 53 cities and towns in Telstra’s 5G footprint every day, and approximately one third of the population is covered with 5G. Telstra has exceeded the company’s FY20 target of deploying 5G in 35 cities.

“Telstra has always been a leader in telecommunications technology and we are the clear leader in Australia in 5G, as well as being at the forefront globally,” said Mr Penn.

“Earlier this year we decided to bring forward \$500 million of capital expenditure planned for the second-half of FY21 into calendar year 2020. This is enabling us to accelerate our 5G rollout further while injecting much needed investment into the economy. As a result, late last month I announced that we have increased our ambition and plan to cover 75 per cent of the population with our 5G network by June next year.”

In FY20, Telstra also invested in extending its network to provide coverage to more people in regional and remote places.

“In the five years to end of June this year we have invested \$7.5 billion in our mobile network nationally with \$3 billion of that invested in regional areas alone. This year we deployed world-first technology that effectively doubled the range of a 4G mobile base station, increasing it by up to 200 kilometres for some IoT solutions increasing that network to nearly four million square kilometres across the country. These are big wins for our regional and remote customers,” said Mr Penn.

During the year a new Telstra InfraCo organisational structure and operating model was implemented and a Heads of Agreement between InfraCo and Telstra put in place for commercial, service level and operating arrangements.

Telstra also continued to make progress on the T22 target of monetising up to \$2 billion worth of assets to strengthen its balance sheet, recently announcing that it had entered into an agreement to sell and lease back its data centre complex in Clayton, Victoria. Once completed, the agreement will bring the asset monetisation total to over \$1.5 billion, and Telstra will continue to pursue opportunities in FY21 with a view to getting closer to \$2 billion.

Decisive action on COVID-19

Telstra estimated the financial impact of COVID-19 during FY20 was approximately \$200 million in underlying EBITDA.

“The enormous, ongoing disruption and pain caused by the COVID-19 pandemic has made the past few months extraordinarily challenging for everyone,” said Mr Penn.

“However, we have been thoughtful about the best ways we can make a difference and taken strong and decisive action to support our employees, our customers, and the community.”

In March Telstra provided employees with pandemic leave, shifted office-based work to working from home, and put further job reduction announcements on hold.

The company also put assistance measures in place for customers, helped small businesses shift online or go into hibernation, recruited temporary employees for customer service roles in Australia, and extended all sponsorship agreements that would have expired during 2020.

A leading responsible business

“Earlier this year I commented that as we enter the 2020s there has never been a more important time for business to think deeply about the role it plays in society. This has only been reinforced during COVID-19 and the bushfires,” Mr Penn said.



During the bushfires, Telstra provided vital infrastructure for emergency services and community evacuation centres, answered more than 55,000 calls from customers making enquiries and seeking support, and paid the mobile phone bills for around 10,000 fire fighters and SES volunteers over December and January. Telstra also provided free access to its payphone network and Telstra Air Wi-Fi hotspots. Investments in supporting customers and restoring bushfire damage to infrastructure will amount to \$44 million across FY20 and FY21.

During the year Telstra became carbon neutral in its operations and its challenger brand Belong became carbon neutral in its products and services. Telstra also made progress on its commitment to sourcing 100 per cent renewable energy by 2025, and reducing overall emissions by 50 per cent by 2030.

"I strongly believe that being a responsible business - supporting our people, customers and the economy – creates long-term value for shareholders," said Mr Penn.

"Central to this is how we live up to our organisational purpose and values, not just what is in our contracts. Despite our aspirations and hard work, we know we don't always get things right. Our practices have also let down some of our customers in Indigenous communities. The lessons we are learning from this are helping us re-define our understanding of what responsible business looks like and we must hold ourselves accountable to these standards."

Telstra is currently cooperating with the Australian Competition and Consumer Commission (ACCC) as they conduct an investigation into Telstra's sales, complaint handling and debt collection practices, to determine whether there has been misleading or deceptive conduct, unconscionable conduct, or false or misleading representations. Having considered all the information available, Telstra has made a provision of \$50 million in its FY20 accounts for any penalties.

The year ahead

Telstra provided financial guidance for FY21 on a range of metrics ⁶. For FY21 Total Income is expected to be in the range of \$23.2 to \$25.1 billion, underlying EBITDA in the range of \$6.5 to \$7.0 billion, net one-off nbn DA receipts (less nbn net cost to connect) in the range of \$0.7 to \$1.0 billion, capital expenditure of \$2.8 to \$3.2 billion, and free cashflow after operating lease payments of \$2.8 to \$3.3 billion. The in-year nbn headwind for FY21 is expected to have a negative impact on underlying EBITDA of approximately \$700 million. To achieve growth excluding the in-year nbn headwind in FY21, underlying EBITDA will need to be around the mid-point of the guidance range.

Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately \$400 million.

Telstra also adjusted its T22 target for Return on Invested Capital (ROIC) to be greater than 7 per cent by FY23.

"Several things have changed since we set our ROIC ambition as part of the launch of our T22 strategy. We have experienced deeper competition across products and slower return to growth, especially in mobile. In addition, AASB16 was implemented resulting in a 1 percentage point reduction in ROIC, which previously caused us to push out our target by a year. In this same period our WACC has also reduced by approximately 1.5 percentage points," said Mr Penn.

"We have invested, and will continue to invest, for long-term returns and opportunities, especially in mobile and our T22 strategy, the benefits of which will be realised over time. Our long-term ambition is to grow ROIC."

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Details of the FY20 Financial Results, including copies of the presentations given by the CEO and CFO, are available on the Telstra Investor website www.telstra.com.au/aboutus/investors

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¹ Excluding finance income

² Reported lease adjusted EBITDA includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.

³ FY20 guidance assumed wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn rollout and migration in FY20 was broadly in accordance with the nbn Corporate Plan 2020. Guidance was provided on the basis of AASB16 Leases and assumed impacts consistent with management estimates. Capex was measured on an accrued basis and excluded expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. In-year nbn headwind is defined as the net negative recurring EBITDA impact on our business based on management best estimates including key input of the nbn Corporate Plan 2020.

⁴ See note 3. As at 30 June 2020, the in-year nbn headwind was ~\$830 million.

⁵ Underlying fixed costs excludes one-off nbn DA and nbn net C2C, one-off restructuring costs and guidance adjustments

⁶ FY21 guidance assumes no impairments in and to investments or non-current tangible and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance is based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance. Total income excludes finance income. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately \$400 million. This estimate is approximately \$200 million greater than the estimated negative impact from the COVID-19 pandemic for FY20 underlying EBITDA. In-year nbn headwind is defined as the net negative recurring EBITDA impact on our business. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases. Free cashflow is defined as 'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities' and excludes spectrum and guidance adjustments.