Chairman & CEO Message

Dear Shareholders

This has been an incredibly important year for Telstra, a year where we embraced the many changes we need to ensure our continued success in the future, while staying true to our purpose and core values.

Already we are a very different, much simpler and more customer focussed organisation than we were a year ago.

In the year since we launched T22 - in June 2018 - we have taken some great strides toward becoming a company that is easier to interact with, improving our service and offering fewer and more flexible products. All of this is supported by our investment to deliver Australia’s largest, fastest, smartest, and safest next generation networks and new technology to deliver a market-leading customer experience.

Through T22 we have radically simplified our products and services by reducing more than 1,800 Consumer and Small Business plans to just 20 in-market core fixed and mobile plans. In the past year, we have also introduced new no lock-in mobile plans with no excess data charges in Australia and launched our customer loyalty program, Telstra Plus, which rewards members with points that can be put towards the latest devices, accessories and entertainment.

For our business customers, we continue to be the best one-stop shop for all business-to-business technology needs. We have made progress on our ambition to provide modular, curated, self-service and simplified products to customers and have launched and enhanced Connected Workplace to selected customers, built on our new technology stack.

While we are making good progress on our T22 strategy, we continue to feel the significant impact of the rollout of the nbn™ on our earnings and profit, and competition in the mobile market remains high.

Our financial results

Our full year results for financial year 2019, which were in line with guidance and market expectations, showed strong progress against the T22 strategy.

On a reported basis, Total Income¹ decreased 3.6 per cent to $27.8 billion, EBITDA decreased 21.7 per cent to $8.0 billion, and NPAT decreased 39.6 per cent to $2.1 billion. On a guidance basis², Total Income¹ decreased 2.6 per cent to $27.8 billion, EBITDA (excluding restructuring costs) decreased 11.4 per cent to $9.4 billion. Underlying EBITDA³ decreased 11.2 per cent to $7.8 billion.

The largest reason for the decline in EBITDA was the impact of the nbn, with Telstra absorbing around $600 million of negative recurring EBITDA headwind⁴ in the period. Underlying EBITDA decreased approximately 4 per cent if you exclude the in-year nbn headwind. To date we estimate the nbn has adversely impacted EBITDA by approximately $1.7 billion, and estimate we are around 50 per cent of the way through the recurring financial impact of the nbn.

We saw continued customer growth, with 378,000 net retail postpaid mobile services added, including 181,000 from Belong, taking retail mobile postpaid handheld services to 8.2 million. We also added more than 230,000 wholesale MVNO mobile prepaid and postpaid services and 107,000 net new fixed-line retail bundle and data services, including 51,000 from Belong.

Our Internet of Things (IoT) business exceeded industry growth rates, with revenue growth of 19.4 per cent. On average 2,000 things are being connected to our IoT networks every day including vehicles, machines, infrastructure, smart meters and a wide array of other sensors.

¹ Excluding finance income.
² This guidance assumed wholesale product price stability and no impairments to investments or core 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 FY19 was broadly in accordance with the nbn Corporate Plan 2019. The guidance was provided on the basis of AASB15. Capex was measured on an accrued basis and excluded expenditure on spectrum and externally funded capex.
³ FY19 Underlying EBITDA excluded net one-off nbn DA receipts less nbn net cost to connect (C2C), and guidance adjustments.
⁴ In-year nbn headwind defined as the net negative recurring EBITDA impact on our business based on management best estimates.
While we continued to grow our customers, we also significantly reduced our costs, with a $456 million (6 per cent) reduction in underlying fixed costs.

Notwithstanding the intense competitive environment and the challenging structural dynamics of our industry, it is a year in which we believe we can start to see the turning point in the fortunes of the company from the changes we have embraced.

For FY19, the Board resolved to pay a total 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. Combined with the total interim dividend paid in February 2019, shareholders will receive a total dividend of 16 cents per share for FY19, returning more than $1.9 billion to shareholders.

The ordinary dividend represents a 59 per cent payout ratio on FY19 underlying earnings, while the special dividend represents a 63 per cent payout ratio of FY19 net one-off nbn receipts. The FY19 ordinary dividend is below the payout ratio of 70 to 90 per cent of underlying earnings, which is one of the principles in our capital management framework. In our updated Capital Management Framework underlying earnings now explicitly exclude guidance adjustments as well as net one-off nbn receipts. In determining the FY19 final ordinary dividend, the Board has taken into account a number of factors including the overall capital management framework objectives, including maintenance of financial strength and retaining financial flexibility.

World-class networks

We continue to invest in our world-class networks and this year we began rolling out 5G, the next generation of telecommunications technology. We were the first to launch 5G in Australia and the first telco to begin offering 5G handsets here. To begin with, we are building out our 5G coverage in 10 cities nationally, with more locations to follow.

5G is much more than just a faster smartphone – it will be a key connectivity technology enabling extraordinary new opportunities in fields like the Internet of Things, cloud computing, big data, machine learning and artificial intelligence – all areas where we continue to build our expertise and capabilities for the future.

Our mobile footprint stretches out to more than 2.5 million square kilometres, vastly more than any other mobile network in Australia, and coverage extends to 99.5 per cent of the Australian population.

Delivering more connectivity and better networks in a country as large and as sparsely populated as Australia is no easy thing, but Telstra continues to lead. So far we have erected 600 mobile base stations as part of the Federal Government’s Mobile Black Spot Program, and by the end of the program we will build around 800 stations – four times more than the rest of the industry combined.

We are pioneering the use of new and more affordable technologies like small cell technology and mobile repeaters to increase coverage on the road. We will never be able to provide coverage to every last Australian but our commitment is that we will work cooperatively with governments and other stakeholders, and will do our absolute best to bridge the gap between city and country better than anyone else.

Simpler and more customer focussed

We have greatly simplified our structure and ways of working to empower our people and serve our customers. Re-engineering how we operate and removing complexity and management layers has meant a reduction in the size of our workforce particularly as nbn co, a company which did not exist several years ago, progressively becomes the wholesale provider of fixed broadband services in Australia, a role previously held by Telstra. The reality is it is not possible for Telstra to continue to operate with the same number of employees after the nbn network is rolled out as it had before nbn co-existed.

Around 75 per cent of the net 8,000 direct workforce role reductions we announced as part of our T22 strategy have now been identified. We have also made progress on our target to create 1,500 new roles in areas like cyber security and software engineering.

The impact our T22 strategy has on our people is the hardest of the changes we are making and we have seen that reflected in our employee sustainable engagement figure, which declined this year by 10 per cent. To support our

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5 Underlying earnings is defined as net profit after tax from continuing operations excluding net one-off nbn receipts and guidance adjustments (see notes 6 & 8 below).  
6 ‘net one-off nbn receipts’ is defined as net one-off nbn Definitive Agreement (nbn DA) receipts (consisting of Per Subscriber Address Amount (PSAA), Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.  
7 See FY19 management presentation materials for updated Capital Management Framework which has been lodged with the ASX and available on Telstra’s Investor website at www.telstra.com.au/aboutus/investors.  
8 Guidance adjustments include one-off restructuring costs, impairments in and to investments or property, plant and equipment and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.
people through the change, we are investing up to $50 million in a transition program that provides a range of services to help people move into new roles.

You can read more about the T22 strategy and the progress we are making in the Strategy & Performance section.

In the past year, the Australian corporate landscape has undergone a seismic readjustment as customers, regulators and investors have publicly reminded large organisations of the value they place on companies being transparent, ethical and accountable in all their dealings.

We understand and respect the long-standing responsibilities we have as part of the community. We were one of three Australian companies recognised on the global CDP 2018 Climate A List for our efforts to address climate change. This year we also helped around one million vulnerable people to stay connected, which is part of our 2020 target to enable 1.5 million people to connect or thrive online. We know we have more work to do and we are committed to continuously improving the way we serve and support potentially vulnerable customers. Our Bigger Picture 2019 Sustainability Report provides more information on these and other initiatives. You can read more at telstra.com/sustainability/report9

Leadership renewal

We continue to review and renew the composition of the Board to ensure we have the right balance of experience, expertise and fresh thinking. Our thanks to retiring directors Russell Higgins, Trae Vassallo, Jane Hemstritch and Steven Vamos for their enormous contributions and welcome to Niek Jan van Damme (previously a member of the Deutsche Telekom Board of Management) and Eelco Blok (who has more than 30 years’ experience at Dutch-based landline and mobile telecommunications company KPN). While the composition of the Board has changed over the year, we remain focused on achieving our 40 per cent target for female non-executive directors.

You can read more about the Board’s composition in the Board of Directors section.

In the management team, Michael Ackland was appointed to lead the Consumer and Small Business function, Christian von Reventlow now leads Product & Technology, Michael Ebeid leads Enterprise and Nikos Katinakis leads Networks and IT. Robyn Denholm also stepped down as Chief Financial Officer (her contribution as Telstra’s CFO and COO were enormous) and has been replaced by Vicki Brady, formerly Group Executive, Consumer and Small Business.

Our year ahead

Our business is well positioned for the era in which we are about to head – the 2020s. Returning to growth will take time. However, we have great confidence that our strategy can arrest the decline in our earnings and create opportunities for growth.

While the reported financial trends in FY19 were challenging, underlying trends are expected to improve over the course of FY20.

Telstra released guidance for FY20, with Total Income11 in the range of $25.7 to $27.7 billion, underlying EBITDA12 in the range of $7.3 to $7.8 billion, restructuring costs of around $300 million, capital expenditure of $2.9 to $3.3 billion, and free cash flow after operating lease payments13,14 of $3.4 to $3.9 billion.

Telstra expects net one-off nbn DA receipts15 (less nbn net cost to connect (C2C)) of between $1.6 billion to $2.0 billion. Telstra also expects FY20 to be the biggest in-year nbn headwind16 to date, with between $800 million to $1 billion

9 This report will be available online from 30 August 2019.
10 This guidance assumes wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn rollout and migration in FY20 is broadly in accordance with the nbn Corporate Plan 2019. Guidance is provided on the basis of AASB16 Leases and assumes impacts consistent with management estimates and current interpretation of the standard. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases.
11 Excluding finance income.
12 Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, guidance adjustments and includes amortisation of mobile operating lease costs.
13 FY20 free cash flow defined as operating cash flows less investing cash flows less operating leases (reported in financing cash flow under AASB16 leases).
14 FY20 free cash flow guidance includes ~$1b working capital increase including from exit of mobile lease plans, remaining outflows from restructuring costs announced in May 2019, and an increase in nbn receivables
15 ‘net one-off nbn receipts’ is defined as net one-off nbn Definitive Agreement (nbn DA) receipts (consisting of Per Subscriber Address Amount (PSAA), Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
16 In-year nbn headwind defined as the net negative recurring EBITDA impact on our business based on management best estimates including key input of the nbn corporate plan 2019.
expected from the recurring impact of the nbn. The clearest view of future financial performance of the business is provided by looking at underlying EBITDA, excluding the recurring in-year headwind of the nbn, which in FY20 is expected to grow by up to $500 million.\(^{17}\)

You can read more about the year ahead in the Outlook section.

**A year of challenge and important change**

To sum up, FY19 was a year in which we met guidance, achieved strong subscriber growth in both fixed and mobile, and built significant momentum behind our T22 strategy.

The progress we made this year is the result of the combined efforts of many people, including our dedicated employees who serve our customers and help us return value to our shareholders.

We are still closer to the start of T22 than the finish but we are confident we are moving at speed toward fulfilling our purpose to build a connected future so everyone can thrive. We are confident we have the right strategy to create sustained value for our customers, our shareholders and our employees well into the future.

On behalf of everyone at Telstra, thank you for your support and we wish you a happy and healthy year ahead.

John P Mullen  
Chairman

Andrew R Penn  
CEO and Managing Director

15 August 2019

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\(^{17}\) This estimate is based on the midpoint ($900m) of expected in-year nbn headwind (defined in note 16 above).