15 August 2019

Office of the Company Secretary

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra delivers FY19 results in line with expectations, with strong progress against T22 strategy

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.

Yours faithfully

Sue Laver
Company Secretary

MARKET RELEASE

Telstra delivers FY19 results in line with expectations, with strong progress against T22 strategy

- **Strong progress on T22 strategy in first year**
  - **reduced the number of Consumer & Small Business plans in market from 1800 to 20**
  - **introduced no lock-in plans across fixed and mobile and removed excess data charges in Australia**
  - **launched commercial 5G service**
  - **7.7 million (22 per cent) drop in calls to call centres**
- **Total Income, EBITDA and NPAT in line with expectations**
- **$456 million (6 per cent) reduction in underlying fixed costs**
- **Continued customer growth, with 378,000 net retail postpaid mobile services added including 181,000 from Belong**
- **Final dividend of 8 cents per share, total dividend of 16 cents per share for FY19**

Thursday 15 August – Telstra today released its full year results for financial year 2019, which were in line with guidance and market expectations and showed strong progress against the T22 strategy.

- On a reported basis Total Income[1] 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 basis[2] Total Income[1] decreased 2.6 per cent to $27.8 billion, EBITDA (excluding restructuring costs) decreased 11.4 per cent to $9.4 billion.
- Underlying EBITDA[3] 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 headwind[4] in the period. Underlying EBITDA decreased approximately 4 per cent excluding the in-year nbn headwind. To date Telstra estimates the nbn has adversely impacted EBITDA by approximately $1.7 billion since FY16, and estimates it is around 50 per cent of the way through the recurring financial impact of the nbn.

Strong momentum on T22 strategy

Telstra CEO Andrew Penn said the results reinforced the importance of the T22 strategy one year in and Telstra was making strong progress on its implementation.

“FY19 has been a pivotal year for Telstra. Notwithstanding the intense competitive environment and the challenging structural dynamics of our industry, it is a year in which I believe we can start to see the turning point in the fortunes of the company from the changes we have embraced,” Mr Penn said.

“We completed our strategic investment program announced in 2016 to digitise our business and create the networks for the future, delivering over $500 million of EBITDA benefits. We passed the halfway mark of customers migrating onto the nbn network. We launched 5G, the next generation of telco technology and the platform for future growth for us and our customers. And at the start of the year we commenced our T22 strategy, where we have made very significant progress.

“During the year we radically reduced the number of Consumer & Small Business (C&SB) fixed and mobile plans we have in market, moving from over 1800 plans to just 20. This simplification is good for our customers and it makes life easier for our people.

“We became the first major telco in Australia to introduce no lock-in plans across fixed and mobile, and customer pain points such as excess data charges in Australia are also now a thing of the past across all of our new mobile plans. Already more than 820,000 customers are enjoying the freedom and peace of mind this brings.

“We launched Telstra Plus, our loyalty program that rewards our customers for choosing to be with us. Already more than 770,000 customers are enrolled in the program.

“Our customers can now enjoy the benefits of our leading position in 5G. We are the only provider in Australia to have commercially launched 5G services. We are rolling out 5G in 10 cities around Australia.

Over the next 12 months we expect our 5G coverage to increase in area almost five-fold and reach into at least 35 Australian cities. Through our strong partnership with manufacturers, we were able to offer Telstra customers some of the world's first 5G devices."

Mr Penn said good momentum had been achieved in reducing costs, with a $456 million reduction in underlying costs in the year.

"This means we have achieved $1.17 billion in reductions since FY16 and we are on track to achieve our $2.5 billion net cost reduction target by FY22," Mr Penn said.

"Our cost out drivers have included simplification and digitisation and this has led to reductions in direct and indirect labour costs as well as non-labour related costs.

"Examples include 900,000 fewer truck rolls over the year enabling us to reduce our fleet vehicles by 14 per cent, and we have also reduced our property footprint by 8 per cent."

In line with its T22 strategy to monetise up to $2 billion of assets by the end of FY20, Telstra yesterday reached an agreement to sell three international data centres in Europe and Asia to global private equity firm I-Squared Capital, the owners of Hutchison Global Communications. The three data centres predominantly provide services to Telstra's International Enterprise customers. The agreement is subject to a number of conditions precedent and if these are satisfied, Telstra expects the transaction to be completed in first half of FY20, with estimated proceeds from sale of approximately $160 million.

Mr Penn said a critical part of delivering on Telstra's T22 commitments was changing its structure and ways of working to allow its people to collaborate more quickly and easily to deliver better and faster outcomes for customers.

"We have made good progress on our commitment to remove hierarchies and silos and have redesigned our organisation from the ground up. We have already removed three management layers and are on track to reduce up to four management layers in the organisation," Mr Penn said.

"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 creating 1,500 new roles in areas like cyber security and software engineering."

An important milestone for the year was the establishment of Telstra InfraCo and its operation as a standalone infrastructure business unit within Telstra. Its financial performance is separately provided to the market to give a greater understanding of the value of its assets and to drive better returns.

Telstra's T22 strategy is built on the foundation provided by the strategic investment program announced in 2016 to create networks for the future and digitise the business. This investment program enabled the business to enhance the capacity, capability and reach of its networks while radically simplifying products, eliminating customer pain points and creating great digital experiences.

Mr Penn said Telstra's digital experience now accounted for 16.8 per cent of sales for its C&SB customers and more than half of service transactions, including account management, prepaid product and billing related enquiries.

"Simpler products and processes and more ways for customers to self-serve saw calls to our C&SB call centres drop significantly, with nearly 7.7 million (22 per cent) fewer calls in FY19," Mr Penn said.

Customer and services number growth

More than 378,000 net retail postpaid handheld mobile services were added during FY19, including 181,000 from Belong, taking retail mobile postpaid handheld services to 8.2 million.

Over 230,000 wholesale MVNO mobile prepaid and postpaid services were also added during FY19, bringing total wholesale services for the company to over 1.2 million.

Telstra also added 107,000 net new fixed-line retail bundle and data services, including 51,000 from Belong. This brought total retail bundle and data services to over 3.7 million. During the year Telstra added 659,000 new nbn connections with an estimated nbn market share (excluding satellite) of 49 per cent.

Telstra's 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 Telstra's IoT network every day including vehicles, machines, infrastructure, smart meters and a wide array of other sensors.

Returns to shareholders

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[5], while the special dividend represents a 63 per cent payout ratio of FY19 net one-off nbn receipts[6]. 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[7] underlying earnings now explicitly exclude guidance adjustments[8] 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.

FY20 guidance

Telstra released guidance for FY20[9], with Total Income[1] in the range of $25.7 to $27.7 billion, underlying EBITDA[10] 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 payments[11] of $3.4 to $3.9 billion.

Telstra expects net one-off nbn DA receipts[6] (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 headwind[12] to date, with between $800 million to $1 billion 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.[13]

Mr Penn said that although the reported financial trends in FY19 were challenging, underlying trends were expected to improve over the course of FY20.

"Returning our business to growth will take time. However, I have great confidence that our strategy can arrest the decline in our earnings and create opportunities for growth.

"Today we are already a very different, much simpler and more customer focussed organisation than we were a year ago and we are well positioned for the era in which we are about to head – the 2020s.

"I'd like to thank our employees who have made fantastic contributions during a very challenging period. Their efforts have made our progress against T22 possible," Mr Penn said.

FY19 Financial results		
Reported Total Income (excl. finance income) $27.8 billion, -3.6%	Guidance basis[2] Total Income (excl. finance income) $27.8 billion, -2.6%	
Reported EBITDA $8.0 billion, -21.7%	Guidance basis[2] EBITDA (excl. restructuring costs) $9.4 billion, -11.4%	Underlying EBITDA[3] $7.8 billion, -11.2%
Reported NPAT $2.1 billion, -39.6%	Guidance basis[2] Capex: $4.1 billion and Free Cash Flow: $3.2 billion	FY19 total dividends: 16 cents per share[14]

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[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.
[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.
[9] 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.
[10] FY20 underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, guidance adjustments (as per note 8) and includes amortisation of mobile operating lease costs.
[11] FY20 free cash flow defined as operating cash flows less investing cash flows less operating leases (reported in financing cash flow under AASB16 Leases). 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.
[12] 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.
[13] This estimate is based on the midpoint ($900m) of expected in-year nbn headwind (defined in note 12 above).
[14] Total dividends of 16 cents per share fully franked comprising total ordinary dividend of 10 cents per share and total special dividend of 6 cents per share.