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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra outlines new corporate structure, plans for mobile towers business monetisation, updates ROIC target and reconfirms FY21 guidance

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

Authorised for lodgement by:

Sue Laver
Company Secretary

MARKET RELEASE

Telstra outlines new corporate structure, plans for mobile towers business monetisation, updates ROIC target and reconfirms FY21 guidance

Thursday 12 November 2020: Telstra today announced an important milestone in its T22 strategy with the proposed restructuring of the organisation to create three separate legal entities within the Telstra Group.

Telstra CEO Andrew Penn said the restructure would enable Telstra to take advantage of potential monetisation opportunities for its infrastructure assets where this might create additional value for shareholders.

“The proposed restructure is one of the most significant in Telstra’s history and the largest corporate change since privatisation. It will unlock value in the company, improve the returns from the company’s assets and create further optionality for the future,” Mr Penn said.

“The challenges and disruptions of the last 6-12 months have reinforced the increasing value of infrastructure assets globally; the importance of the digital economy, not only to business but to the whole of Australia and its economic recovery; and the dependence of the digital economy on telecommunications as its platform.

“Our proposed new corporate structure reflects this new world and will help us support the foundation for it – one that is in the interests of our shareholders, our employees, our customers, and ultimately one that benefits the country overall.”

The proposed legal structure within the Telstra Group, expected to be completed by December 2021, would be:

- **InfraCo Fixed**, which would own and operate Telstra’s passive or physical infrastructure assets: the ducts, fibre, data centres, subsea cables and exchanges that underpin Telstra’s fixed telecommunications network.
- **InfraCo Towers**, which would own and operate Telstra’s passive or physical mobile tower assets, which Telstra will look to monetise over time given the strong demand and compelling valuations for this type of high-quality infrastructure.
- **ServeCo**, which would continue to focus on creating innovative products and services, supporting customers and delivering the best possible customer experience. ServeCo would own the active parts of the network, including the radio access network and spectrum assets to ensure Telstra continues to maintain its industry leading mobile coverage and network superiority.

Telstra InfraCo was established as a standalone business unit in 2018 as part of Telstra’s T22 strategy, for three reasons – to provide greater transparency of the value of Telstra’s infrastructure assets; to improve infrastructure operating efficiency; and thirdly to create optionality post the roll out of the nbn, including the flexibility to monetise different asset groups.

“With Telstra InfraCo now a fully operational stand-alone business unit and the nbn roll out effectively complete, now is the time to take the next step in realising our T22 ambitions, including monetisation of our infrastructure assets where appropriate,” Mr Penn said.

“The proposed restructure of our organisation provides us the optionality and opportunity to better realise the value of our infrastructure assets and, in an evolving and competitive market, helps us focus on continuing to provide the best experience to our customers.

“We have created a set of key principles for the Intercompany Agreements between InfraCo and ServeCo that supports strong and sustainable earnings for both entities. These agreements are designed to maximise value for Telstra shareholders.”

Mr Penn said InfraCo Towers would own and operate the largest network of mobile tower sites in Australia.

"InfraCo Towers will enable greater utilisation and commercial use of our tower assets, and ultimately drive more value for our shareholders. Telstra intends to start seeking investment from third parties while maintaining control of our strategic towers and preserving our competitive differentiation for Telstra's mobile business. We anticipate this will begin in 2021 and will follow a similar timeline to the rest of the restructuring process," Mr Penn said.

"There are a range of commercial, regulatory, and operational requirements needed to finalise the structure, including consultation with our employees and unions.

"We are very conscious of the many stakeholders, including shareholders, who will have an interest in these changes and that is why we have announced our intentions today, well ahead of implementation, so we can undertake a comprehensive consultation program to explain the many benefits this structure delivers. We will work very closely with our partners, our people and other stakeholders throughout this process, and will provide an update on progress at our Half Year Results in February 2021."

Core business update

Telstra today reconfirmed its FY21 guidance provided to the market at its FY20 Full Year Results in August.

Mr Penn said with the nbn rollout effectively complete and being more than half way through its T22 strategy, Telstra believed it would turn underlying EBITDA back to growth by FY22 and was very focussed on delivering its ambition to be in the range of $7.5 to $8.5 billion of underlying EBITDA by FY23.

"While we do not provide financial guidance beyond the current financial year, our board and management team understands the importance of achieving EBITDA in this range and the actions required to deliver it," Mr Penn said.

"If we are successful in getting into the bottom end of the $7.5 - $8.5 billion underlying EBITDA range by FY23, this would equate to an estimated ROIC of close to 8 percent.

"As a result, we have updated our ROIC target accordingly to be around 8 percent by FY23."

Mr Penn said Telstra was very well progressed on delivering its T22 strategy – becoming a much leaner, simpler and digital company for its customers – and this had prepared it well to respond to the challenges of COVID and return to underlying growth.

"Our mobile business continues to perform strongly relative to our competition. Our clear lead in 5G means we have the opportunity to capitalise on a new multi-year cycle of growth and our transacting minimum monthly commitment has continued to grow in FY21.

"We already have more than 400K 5G devices on our network and we expect that to reach around 750K by the end of the calendar year.

"The impact of the nbn on our fixed business remains as expected and will be largely complete by FY22. We have a plan to improve our Fixed EBITDA and we are targeting a mid-teens nbn reseller margin in FY23[1], managing the economic impact of the legacy copper network, and accelerating our use of fixed wireless in the home where it makes sense for our customers.

"We expect our total Enterprise business to return to growth in FY22 after combining mobile, Data & IP, NAS and International, and adjacencies such as Health to contribute to our turn around."

[1] Includes small-business unified communications earnings

Telstra is on track to deliver $2.5 billion in net productivity by FY22, delivering $1.8 billion of this from FY16 to FY20, with another $400 million expected in FY21. This $2.5 billion target is a net figure which includes absorbing all inflation and re-investment, reduction in legacy access network costs and COVID-19 impacts.

Cost reductions in FY21 are expected to be achieved predominantly through indirect and direct labour, enabled by the ongoing shift of customers onto digital sales and service channels and a strong focus on vendor costs and workforce efficiency.

The Investor Day presentation materials have also been lodged with the ASX.

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