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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2021 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2021 Financial Results analyst briefing, for release to the market.

Authorised for lodgement

Sue Laver
Company Secretary

Introduction

Nathan Burley: Good morning, and welcome to Telstra's Full Year 2021 Results presentation. My name is Nathan Burley, Head of Investor Relations. I respectfully acknowledge that I am joining today from the lands of the Kulin Nation, and on behalf of Telstra, I would like to acknowledge and pay my respects to the traditional custodians of country throughout Australia, and recognise their continued connection to land, waters and culture. We pay our respects to their Elders past, present and emerging.

This morning after presentations from our CEO, Andy Penn, and CFO, Vicki Brady, we will be taking questions from analysts and investors, and then media. I will now hand over to Andy Penn.

Presentation from Andrew Penn

Andrew Penn: Thanks very much, Nathan. And good morning and welcome to Telstra's Results announcement for the full year ended 30th of June 2021. A year in which we saw our underlying business return to growth. A year in which we continued to make strong progress against our T22 strategy.

This morning, I will make some introductory remarks, and take you through an overview of our Results. Vicki will then take you through the numbers in more detail, before we move to Q&A.

Before I start, I wanted to thank you for attending virtually. It's been a trying 18 months for all of us, and my thoughts go out to those of you that are in lockdown, and those families and businesses that are doing it tough. I sincerely hope your families and yourself are staying safe.

Let me turn then to 2021, because 2021 was a significant year for Telstra. It was a crucial milestone in our T22 journey. It represents a turning point in our financial trajectory, with second half underlying EBITDA up on the first half, guidance for FY22 underlying EBITDA in the range of \$7 billion to \$7.3 billion, representing mid to high single digit growth. And FY21 Net Profit After Tax and Earnings Per Share up 3.4% and 2% respectively. We have achieved this because we have stayed disciplined, and we have stayed focused on delivering what we said we would deliver.

Three years into what has been one of the largest and most ambitious transformations of a telco globally, we are a vastly different company. Since announcing T22, we've radically simplified our business, reducing the number of plans for our Consumer and Small Businesses, from 1,800 to 20. We've removed lock-in contracts. We've removed excess data. We've removed many other fees. The number of calls coming into our contact centres has fallen by more than two thirds, and by the end of this financial year, we expect to answer all calls from these customers in Australia.

We're also well progressed on the arrangements to bring our licensee stores back in-house. We've cut our workforce by one third, reducing our direct and indirect headcount by more than 25,000 in response to the transfer of a material

part of our business to the NBN, and from our digitisation and efficiency initiatives.

We've also exceeded our target to recruit new capability in new areas, exciting areas such as software engineering, data analytics, cyber security, artificial intelligence, with more than 1,500 new hires. We have removed on average more than four layers of management. We've delivered cost reductions of \$2.3 billion, and we are on track to deliver our T22 productivity target by the end of this financial year, of cumulatively \$2.7 billion. That's more than a third of our starting cost base.

We've repositioned our investment in Foxtel, retaining access to key content for our customers, and supporting its turnaround. We have similarly repositioned our investments in Telstra Ventures, which delivered a mark to market gain for us this year of \$300 million.

We've improved the performance of our Health business. And with Monday's announcement regarding Medical Director, it is now very well strategically positioned for the future.

We've also successfully established InfraCo, and we are progressing with our corporate restructure. We will continue to focus on opportunities to realise additional value for shareholders on top of the \$2.8 billion deal on Towers that we announced recently.

We have monetised over \$2 billion of assets, further strengthening our balance sheet. And in addition to our ordinary dividends, we have returned approximately 75% of the net one-off payments from the NBN to shareholders, and today we have announced an on-market share buyback, returning up to a further \$1.35 billion from the Towers deal that we announced earlier. And we have taken a leadership position on climate change and the environment, and we have been certified carbon neutral since this time last year.

We also continue to make progress on our other two climate targets to reduce our absolute emissions by at least 50% by 2030, and to enable renewable energy equivalent to 100% of our consumption by 2025.

Importantly, through all of this challenge, we're seeing positive movements in the way our customers and the way our employees view us, with strategic NPS increasing 15 points, and employee engagement increasing four points.

Now, it is clear in my mind that initially we did not respond quickly, or significantly enough, to the reality of the impact of the NBN on Telstra, which, as you know, has a cumulative negative impact on our EBITDA ultimately by the end of the program, of at least \$3.5 billion per annum. Before T22, we were not focused enough on transforming and improving the core business to mitigate this. We were too dependent on investments outside of the core.

But we have addressed this, and we have addressed it very clearly with T22. And the T22 program has been a clear success. While we have more to do, and we are determined to finish the job, we will therefore be announcing what

comes after T22, and our strategy for the future at an investor briefing, which we're going to hold on the 16th of September. This will be firmly focused on continuing to improve customer experience, driving growth, and how we will leverage the foundation and the capability that we have built.

So with that now return to the Financial Results for FY21. Total income for the year decreased 11.6% to \$23.1 billion on a reported basis. Underlying EBITDA on a guidance basis, which excludes one-off NBN income, and guidance adjustments, decreased 9.7% to \$6.7 billion. Underlying EBITDA increased from \$3.3 billion in the first half of the year, to \$3.4 billion in the second half of the year. Underlying EBITDA included in in-year NBN headwind of \$650 million, and an estimated \$380 million financial impact from COVID.

Encouragingly, Net Profit After Tax increased 3.4% to \$1.9 billion on a reported basis, and Earnings Per Share was up 2% to 15.6 cents per share. Free cash flow was up 11.6% to a strong \$3.8 billion. The Board has resolved to pay a fully franked final dividend of 8 cents per share, bringing the total dividend for the year to 16 cents per share.

We have also announced today that we will be returning \$1.35 billion to shareholders over the coming period through an on-market buyback from the proceeds of the Towers deal when it completes. This will bring the total returns to shareholders from activities in FY21 to \$3.25 billion.

In terms of the operating highlights for the year, we continue to see strong customer growth in mobiles, albeit there is no doubt that the market has slowed considerably due to COVID. This has included the sharp reversal of net immigration of population growth in Australia, as well as hardware supply shortages that our suppliers have experienced. But notwithstanding that, we have added 101,000 net retail postpaid mobile services, including 67,000 branded, and 34,000 from Belong. Our branded performance clearly reinforces the benefit of our leadership in 5G.

In wholesale, we added 240,000 services, and we also added 892,000 IoT services. Importantly in mobiles we saw our leading indicator, transacting minimum monthly commitment, or TMMC, increase by more than \$3. Our continued focus on building value in mobiles in fact resulted in EBITDA growth of \$170 million in the year.

In fixed, we lost 69,000 net new retail bundles, including 10,000 adds from Belong. While we did have negative adds, bundle and standalone data ARPU, excluding one-offs in Consumer and Small Business did stabilise.

We continue to focus on building value in fixed through our focus on price, higher speed tiers, add-ons, improvements to wi-fi, and our smart modem. In fact, the smart modem is now in over 2.3 million homes, and it has been key to keeping customers connected when working and studying from home. Telstra TV at the same time is keeping them entertained. And through it, more customers are watching Foxtel's Kayo and Binge streaming products. Last week, Foxtel reported paid streaming subscribers were up 155% to over two million. That exceptional subscriber growth has Foxtel, and our investment in

Foxtel, incredibly well positioned for the future, and it validates our strategy to restructure and retain our investment, giving us continued access to great content for our customers.

Telstra Health has had a strong year operationally and strategically. Revenue was at 6% in FY21, and we're confident Health will see high-teens organic growth in FY22. COVID has no doubt highlighted the importance of digital health, and it's driven growth to key platforms such as virtual healthcare, electronic and real time prescribing.

Notwithstanding the strong demand though, key healthcare organisations themselves have, as you can imagine, understandably, been focused on their own COVID responses, and this has disrupted a number of contracts in our pipeline. This has included electronic medical records and integration opportunities, albeit I'm confident these are just really delays in the process.

Also, as you saw earlier this week, we have entered into binding agreements to acquire Medical Director, a key provider of practice management software to GPs in Australia. Now, as you would appreciate, GPs obviously play a very central and a very key role in the healthcare system. In fact, a number of our digital services within Telstra Health already integrate into their practice management systems.

This acquisition will enable us to supercharge the digitisation of this critical part of the healthcare system. And it comes on the back of our announced acquisition of specialist billing and clinical coding software company, PowerHealth, in June.

It was also a very strong year for Telstra Ventures, where on a mark to market basis, as I mentioned before, the value of our investment increased almost \$300 million. Telstra Ventures is one of the most successful corporate backed venture firms globally. Not only have our investments given us access to key insights, key technologies and innovation, of the 74 start-ups that Telstra Ventures has invested in, 12 have achieved unicorn status, with a value of more than \$1 billion. And of those, four have achieved a value of more than \$10 billion. That's incredible success for a venture company.

In customer experience, Episode NPS improved nine points in the year, and six points in the last six months. Similarly, Strategic NPS improved seven points in the year, and two points in the last six months. These improvements to customer experience are evidence that the many initiatives under our T22 program in simplifying our business, in digitising our business, are having a very positive impact on customer experience. In fact, customer complaint levels are now at their lowest levels since the migration to the NBN began.

Now, I know that not all aspects of customer experience are yet where we need them to be, and we have more work to do. But I am confident that the initiatives that we've implemented through T22, combined with our decision to have all inbound calls from our Consumer and Small Business customers answered in Australia, and our decision to bring back in-house branded retail stores, these will all deliver further improvements.

Finally on our operating highlights, we've also made very strong progress in our productivity program. For the year, total operating expenses were down \$1.8 billion, more than 10%, and underlying fixed costs were down \$490 million.

So it's absolutely clear that we are building financial momentum. If you look at this slide, on the left hand side, you can see the growth that we have achieved in underlying EBITDA from the first half of the year to the second half of the year. Whilst the chart on the right hand side of the slide shows the evolution of our four year underlying EBITDA, including guidance for FY22 of \$7 billion to \$7.3 billion, and the aspiration to be in the range of \$7.5 billion to \$8.5 billion in FY23.

As you know, we communicated the \$7.5 billion and \$8.5 billion range as that required to support a 16 cent dividend under our dividend policy, because we know how important the dividend is to shareholders.

Now, we plan to update the market with how we articulate our financial aspirations in conjunction with our strategy briefing in a few weeks. However to be clear, we are not changing our outlook. We continue to aspire to be in this range. I just want to note that our 8% ROIC target is in the bottom half.

I'm also required to point out that these statements for FY23 are not guidance, they're aspirations or ambitions, which means there are operating risks and uncertainties associated with them, compared to our normal guidance statements. Nonetheless, the point is the charts clearly demonstrate why I say we're at a turning point.

Now, while there are many things to support that trajectory, to support that turning point, and support underlying EBITDA, there are three in particular that I want to pull out as important.

Firstly, mobile services revenue. Through our continued focus on building value, we achieved mobile services revenue growth of 3.7% in the second half of the year, or 5.2%, when you exclude international roaming. This is the first period of growth of services revenue in four years. And we expect further growth in the current financial year, FY22.

Secondly, and as I've already mentioned, we continue to make strong progress on our productivity program, reducing underlying fixed costs by \$490 million in FYI21, with another approximately \$430 million expected in FY22.

And thirdly, the major headwinds that we have been facing from the NBN migration are coming to an end. In-year NBN headwinds peaked in the second half of FY20, they reduced in FY21, and they will be substantially less again in FY22, with the majority occurring between now and the end of the calendar year.

With that, let me turn back to this year and comment on our progress with T22. We have now completed, or are on track to complete, around 80% of our T22

scorecard metrics. We now have 8.8 million services on our 20 new simplified Consumer and Small Business plans. We have 3.5 million customers signed up to our rewards program, Telstra Plus, and we're seeing very strong engagement from these customers. In fact, the NPS for customers who are also members of Telstra Plus, is 20 points higher than customers that are not.

We've rationalised the number of Enterprise active products by more than a half. And we have launched new adaptive networks and adaptive mobility products for Enterprise customers, to provide more flexibility and support and a return to growth.

For Consumer and Small Business customers, digital sales interactions are up nine percentage points to 39%. And almost three quarters of all service interactions that our customers have with us are now done digitally.

Under our T22 strategy, our aspiration has been to reduce the number of calls to our contact centres by at least two thirds by the end of the current financial year, FY22. With the acceleration to digital, we have achieved this aspiration one year early. And we're also on track with the transition to full ownership of Telstra branded licensee stores, and we have reached agreement with most of the licensees.

We have also met T22 target to reduce our direct workforce by 8,000, excluding hires due to the COVID workforce restrictions. And whilst we have completed our T22 reductions, I should say, we remain a large organisation that operates in a very dynamic environment. And of course, there will always be workforce challenges at Telstra, as we work to improve customer experience, the NBN transition is finalised, technology continues to automate and digitise part of our business.

We further progressed our journey to introduce agile ways of working, and today we have around 17,000 people across the business working in agile.

We have a proud history of building Australia, and even the world's, leading mobile networks. And we're continuing that in 5G. Now, our competitors like to talk up their 5G networks. But let me tell you, they are just not in the same league. Our 5G network is now more than twice the size of our next nearest competitor. Let me say that again. Our 5G network is now more than twice the size of our next nearest competitor. We cover more than 75% of the population. And our customers know this coverage matters, because we have more than 1.6 million 5G devices already connected to it. And importantly whilst we continue to roll out 5G, customers will of course use both 4G and 5G as they travel around, which is why the combined average speed is the most important metric. And on this measure, Telstra's network outperforms all of its competitors for both download and upload.

The 1,000 megahertz of 26 gigahertz spectrum that we acquired at auction earlier this year gives us a tenfold increase in capacity in hot spots. This is significant as we ramp up the rollout of millimetre wave beyond the five major capital cities, and more compatible devices are released.

In regional Australia, we've announced almost half a billion dollars of additional investment in our networks, to ensure we maintain our competitive advantage, and more importantly, we continue to maintain and improve connectivity for regional customers. I am pleased therefore with the Minister's decision to not follow the ACCC's advice in relation to the low band spectrum auction that is later this year. This was an incredibly important decision for our customers in regional Australia, particularly as we move to close 3G, and to focus on 4G and 5G.

Not surprisingly, therefore, we continue to lead the market in the major mobile industry network performance benchmarks in the year, including umlaut, where we ranked number one for best in test and best in data.

Telstra infrastructure, Telstra InfraCo, has now completed its first full year as a fully operational business function. InfraCo Fixed passive income increased 0.9% to around \$2.2 billion, and InfraCo Towers income increased 4.3% to \$340 million.

The part sale of our Towers business announced in June, and which we expect to complete in this quarter, reinforces the value of our infrastructure assets and our strategy. The final outcome of the transaction, the valuation of Telstra InfraCo Towers at \$5.9 billion, representing an FY21 pro forma EV to EBITDA after leasing multiple of 28 times, clearly demonstrates this.

We've also continued to make progress to implement the proposed legal restructure that we announced in November of last year. This includes working closely with our partners, our people, and stakeholders to navigate the range of commercial, regulatory, and operational requirements and approvals. Now as you would appreciate, the proposed restructure is very complex. It involves the creation of a separate subsidiary, including InfraCo Fixed, InfraCo Towers, Servco, Telstra International under a holding company. We expect the restructure be undertaken by way of a scheme of arrangement as we have previously advised.

Now, it was our intention to seek shareholder approval for the scheme at this year's AGM. However, we now aim to do so at a separate meeting, a separate general meeting, before the end of the year.

Let me also comment on the recent announcement confirming we are in discussions regarding Digicel. As we said in our ASX statement, the discussions are incomplete, and it's not certain the transaction will proceed. But given the nature of these transactions, I'm not able to say more at this stage, other than to confirm that any transaction will have to meet certain financial parameters. And those financial parameters include Telstra's financial investment, being the minor economic proportion of the overall transaction, with all other capital being sourced on a non-recourse basis.

Telstra would own Digicel, with appropriate risk protections, and consolidate it in our financial results. Digicel Pacific is a commercially attractive asset; it enjoys a strong market position in the South Pacific region. It generated EBITDA of US\$235 million in calendar 2020, with a strong margin, and it has

an extensive telecommunications network. But also let me strongly reiterate the comments that you heard from the Chairman, which is that we will only proceed with the transaction if it is in the interests of our shareholders.

Turning then to our T22 scorecard. There are two things that you will notice on the scorecard. Firstly, with a year to go on T22, there are more ticks than dots. And secondly, there are three times as many greens as ambers and reds. In the period we completed six measures to bring the total completed today to more than half. There are some measures rated amber and red, and I want to take a moment to explain why.

Firstly, underlying ROIC. Our target is to achieve around 8%. With the financial ambitions I spoke to earlier, we can see our path to doing so in FY23.

The building of our new technology stacks is very well progressed, and it's delivering great benefits. But as you can imagine, with any IT project of this scale, there are of course a few times that have shifted.

Active My Telstra app users have grown by more than half a million in the last few years, to 4.5 million. This is below where we had planned it to be, but it reflects the good progress in active users across Consumer and Small Business. Digital platforms have in fact grown to 6.5 million.

We need to build more momentum into average services per customer, and we're continuing to target increased multi-product holdings through entertainment, leveraging the benefits from Foxtel, mobile assurance, and the gaming add-ons.

We are behind where we wanted to be on achieving top quartile cost metrics for a full service telco, despite the fact that we've made incredible progress on productivity. On this measure, we set ourselves a very ambitious target three years ago. We have since achieved \$2.3 billion of underlying cost out. We have increased our overall cost out ambitions to \$2.7 billion. And we have delivered on our commitment to reduce total costs in every year since 2019.

This incredibly strong progress on costs has improved our benchmarking position substantially, and we expect to further improve it in FY22. However, we do expect to finish FY22 just outside the top quartile, given that our global peers are also improving more than we had originally planned.

Similarly on labour costs to sales, although again, we have achieved our T22 cost reductions and the great improvements that I've mentioned, this metric has been impacted by the lower hardware revenue which I mentioned earlier, as a consequence of the slower hardware sales and slower supply chains from telecommunications hardware.

Our employee engagement did fall a few points this year. However, we were incredibly pleased to remain with a very high score of 78, consistent with other high performing companies, through a period of great uncertainty and challenge and relentless change for our people.

Now, if I was to summarise FY21 into a single sentence, it would be we stayed disciplined on the execution of our T22 strategy through very uncertain times. Our hard work is paying off, and the turnaround is here. We are earning the trust of our customers, including by removing pain points, and raising the bar on doing business responsibly.

Our networks remain Australia's biggest and Australia's best. Agile is transforming how we work, and combined with our hybrid working model, it's helping our people to feel supported, and perform at their best, notwithstanding COVID related restrictions.

I said in my opening that 2021 was a significant year for Telstra. We have reached an important turning point financially, and we look forward to 2022 with great confidence in our ability to deliver on our strategic ambitions.

In this final year of T22, we will be continuing to improve our customer experience, including for regional customers; completing our digitisation program, including remaining focused on simplification and migration of our customers to the new technology stack and the benefits it delivers; completing our Group restructure, further operationalising Telstra InfraCo, and driving value from our passive assets; further extending our leadership in 5G, including with 5G standalone and core; continuing to grow core connectivity and services and accelerating growth of our exciting new businesses. And finally, and importantly, delivering on our financial commitments to our shareholders.

Delivering these priorities is key to us finishing the T22 job and setting up for what comes next. We have done the hard transformational work, we have built the capabilities to take advantage of the opportunities ahead. And as I said in my introduction, I'm excited to announce that we will be communicating what comes after T22, and our strategy for the future at an Investor Day scheduled for the 16th of September.

Can I close by acknowledging that the progress that we have made is only due to the combined efforts of our many dedicated employees. Telstra's an amazing organisation with amazing people. Despite the disruptions, the impact of COVID on them personally, every day our people are focused on working for our customers, keeping Australians connected, and for that, I want to sincerely thank you.

Thank you. And with that, I will hand over to Vicki before we open for Q&A.

Presentation by Vicki Brady

Vicki Brady: Thanks, Andy. Good morning, and thank you for joining us. I'd like to begin by recognising that I'm joining you from the land of the Darramuragal people. I acknowledge their ancient and ongoing connection to this land and their culture. And I welcome any Aboriginal and Torres Strait Islanders joining us today.

This morning, I'll go through our Full Year Results, and highlight some important trends in the second half, which illustrate the momentum we've built

towards underlying growth. I will also discuss expenses, free cash flow, dividends, capital and FY22 guidance.

Turning to our FY21 performance on slide 11. The numbers on the left are our statutory results. The numbers on the right are reported lease adjusted, which include depreciation of mobile handset lease expense as OpEx. This provides a like-for-like, year-on-year view, given our exit of mobile lease plans. This is the view we use when managing the business, and which today's presentation will focus on.

Pleasingly, FY21 is the last year this adjustment will be required. For FY21 income was \$23.1 billion, down 11.6%. Total operating expenses declined 10.2%, including a \$490 million, or 8.1% decline in underlying fixed costs.

On a reported lease adjusted basis, EBITDA declined 11.5% to \$7.4 billion. This included a \$734 million reduction in net one-off NBN receipts, and a \$487 million positive movement in guidance adjustments, due to an impairment in FY20, and gains on sale in FY21.

Underlying EBITDA for the year was in line with our FY21 guidance, declining 9.7% or \$720 million. It included an estimated \$650 million of in-year NBN headwind, and approximately \$180 million of negative year-on-year impacts related to COVID-19.

At our Half Year Results in February, we committed to growing underlying EBITDA half on half. And I am pleased to say we have achieved this. Depreciation and amortisation declined 8.1%, or \$397 million, on a reported lease adjusted basis, due to assets associated with the NBN completion, and legacy IT assets fully depreciating.

We would expect around \$100 million of further decline in FY22 in the ordinary course. However, given our shift to hybrid working, we will continue to assess our property requirements, and may exit some leases early. This may have a short-term negative impact on D&A, but should result in financial benefits over time.

Net finance costs declined due to both our reduction of net debt, and lower average borrowing costs. We expect this trend to continue in FY22. Income tax expense declined 44%, as we have used some capital losses to offset material profit on asset sales during FY21. Excluding one-offs, our effective tax rate was close to 30%. Reported NPAT grew 3.4% to \$1.9 billion.

Looking now at income by product on slide 12. Underlying income declined \$2.25 billion, or 9.3%. This decline was around 3%, excluding in-year NBN headwinds, lower international roaming due to travel restrictions, and a reduction in low margin [hardware] revenue. For example, although mobile income declined \$820 million, this was largely due to \$750 million decline in hardware revenue, as handset and tablet volumes fell, due to lower foot traffic in our stores, customers holding handsets for longer, and higher outright purchases through independent retailers.

Fixed Consumer and Small Business income remained impacted by NBN migration, legacy voice decline, Foxtel from Telstra decline, and remediation credit. Fixed Enterprise declined due to competition and technology disruption in data and connectivity, as well as a legacy calling and equipment decline not being offset by cloud and NextGen services growth in NAS.

The decline in Fixed Wholesale is attributable to legacy products, NBN headwinds and commercial works. We saw growth in repairing NBN DA, which represents government-backed contracts indexed to inflation, with an average of 26 years remaining for use of our InfraCo Fixed assets.

Other revenue grew. This includes Health revenue growing 6% in FY21. We are confident Health will see at least high teens organic revenue growth in FY22.

Turning to EBITDA. Our full year underlying EBITDA declined \$720 million, reflecting ongoing NBN headwinds, legacy declines, and the financial impacts of COVID-19. In FY21, mobile EBITDA grew by \$170 million. This was driven by benefits from transitioning our customers off subsidy and lease plans, and ongoing productivity, despite around \$200 million of decline in international roaming revenue.

As expected, and in line with migration to NBN and legacy decline, all fixed products decreased. I will address mobile and fixed products shortly in more detail.

Global EBITDA was largely flat in constant currency, and excluding one-offs in the prior period, as initiatives to reduce costs were offset by revenue decline. NBN recurring grew, other declined, largely due to non-operating accounting adjustments.

Despite declines, there has been a significant improvement in the trajectory of the business during the year. The second half has clear indicators of momentum, especially in our mobile business. This is further illustrated on slide 14. Here you can see the trend in our underlying EBITDA by half. As you can see in the dark blue boxes at the top of the graph, between first half FY20 and first half FY21, underlying EBITDA declined \$551 million. However, between second half FY20 and second half FY21, this moderated to \$169 million decline.

Looking sequentially, the light blue arrows show that we have gone from a \$210 million decline between second half FY20 and first half FY21, to achieving growth of \$41 million in the second half. This momentum is a result of improved product trajectory that includes mobile growth and fixed Consumer and Small Business stabilising, as well as ongoing productivity and reducing NBN headwinds.

I'll take you through the key product trends. Firstly, looking at mobile. We've delivered on all our FY21 mobile market commitments, and now have clear momentum, which is flowing through to the financials. Let me take you through four important aspects of this. Firstly top left, you can see mobile

service revenue, the key driver of mobile profitability, which has returned to growth.

In the second half of the year service revenue, excluding international roaming, grew 5.2%, up from 0.7% in the first half. We have added 101,000 postpaid handheld customers, including 34,000 Belong SIOs, and a strong contribution from Enterprise. This increase is despite a decline in Australia's population, a trend which is expected to continue to impact industry growth. In addition, 75% of mass market postpaid customers are on new simplified plans, providing pricing and flexibility.

Secondly, top right, you can see mobile EBITDA, which grew an impressive \$297 million in the second half versus PCP, as service revenue growth flows through to earnings. Thirdly, bottom left, you can see postpaid handheld ARPU, which grew 1.3% in the second half compared to the same period last year. Our lead indicator of postpaid handheld ARPU, transacting minimum monthly commitment, or TMMC, has now grown by more than \$5 since FY19. We can see this increase and pricing changes are flowing through to ARPU.

However, the growth in reported postpaid handheld ARPU was somewhat offset by four negative impacts. Firstly, international roaming decline. Secondly, accounting changes, including new plans which allocate more revenue to hardware, and a shift from full revenue recognition for some add-ons to commission. Thirdly, lower out of bundle excess voice and data fees, and finally, dilution from a higher mix of Belong customers. If these negative impacts are excluded, postpaid handheld ARPU would have been in the high single digits.

By segment. We achieved strong Consumer postpaid ARPU growth in the second half of 7.5% on PCP. This was offset by Small Business and Enterprise declines. Encouragingly, on a sequential basis, Small Business ARPU grew, and Enterprise ARPU flattened, giving us confidence that both segments will follow Consumer to growth in FY22.

With TMMC being accretive to ARPU, and pricing changes continuing to flow through, we expect to report in postpaid handheld ARPU growth in FY22. This is despite the identified negative impacts I just mentioned, except for roaming, continuing to drag.

Fourth, on the bottom right, you can see that prepaid handheld performance was strong, with FY21 revenue growing 4.7%. This was due to a 95,000 increase in unique users and higher ARPU.

Finally, in other mobile categories, mobile broadband declined 4.4%, mainly due to higher out of bundle Enterprise revenue in the PCP, and a reduction in prepaid. And wholesale grew revenue 21%, with net adds of 240,000, and largely flat ARPU.

These factors give us confidence that mobile EBITDA growth will continue, thanks to a combination of service revenue, the final benefits of migrating customers off subsidy and less plans, and ongoing productivity.

Turning now to our fixed portfolio. We've not achieved the same momentum in fixed as we have in mobile. Products within the fixed portfolio are at different stages. However, in all fixed products, we can see an inflection point, as we address challenges head on. We have now absorbed around 90%, or around \$3.2 billion of net negative recurring headwind from the NBN migration. We are further through this headwind in Consumer and Small Business than Enterprise. This means that in Fixed Consumer and Small Business, we have reached an inflection point, with the NBN driven decline now substantially complete. The rate of decline has reduced in the second half of FY21, and it's stabilising sequentially. We expect this to continue in FY22, before EBITDA begins to grow in FY23.

In FY21, bundle and data connections declined 69,000, and we saw higher churn as customers continue to migrate to the NBN. We now have less than 150,000 services to migrate to the NBN in FY22, less than half the volume of FY21. Our churn on NBN is lower than legacy, giving us confidence of trends improving in FY22. ARPU has bottomed, and is now expected to grow. The decline in this period was due to remediation credits and other one-offs.

TMMC was accretive to ARPU, and 85% of mass market customers are now on simplified plans. We remain focused on increasing ARPU through plan mix and add-ons, while maintaining our premium through differentiation. We have increased the percentage of customers on more profitable higher speed plans, with 6% of customers now on plans of 100 megabits per second or greater. And we have well over one million carrier billed streaming and Foxtel from Telstra services.

Digitisation represents an opportunity to deliver a step change in both customer experience and productivity. We have seen these benefits in mobile, and expect similar benefits to follow in mass market fixed, as further digitisation capabilities are enabled. In FY21, we also launched 5G home internet, and we remain excited by the opportunities to drive on net growth. Our NBN reseller EBITDA margin in FY21 was around 5%. Despite challenges, we maintain our ambition to reach mid-teens NBN resale margin in FY23.

Turning to Fixed Enterprise. In data and connectivity we are seeking to stabilise the portfolio and position it for growth by FY24. As we transition from virtual private networks to integrating over-the-internet technologies such as SD-WAN, with Telstra fibre or NBN access. During the year, we successfully resigned key customers, which helped maintain our T-fibre SIOs and increased network capacity for future services growth. Total SIOs declined as lower value copper connections were impacted by consolidation and NBN migration.

While ARPU compression continued to occur, we made material progress in modernising the product portfolio with adaptive networks, which has been well received by customers. In FY22, we will have an increased focus on leveraging our extensive fibre footprint, complemented by reselling NBN, and continued investment in capabilities. This is expected to deliver a lower rate of decline in FY22.

Disappointingly, NAS income and EBITDA did not grow at the rate we expected in FY21, given the larger than anticipated decline in high margin legacy calling apps, and underperformance in professional services. We're confident that the workforce changes we put in place, which temporarily disrupted our execution, have set us up for future benefit.

We remain focused on executing our NAS NextGen strategy, targeting growth in strategic areas including cloud, IoT, security, managed and professional services. We expect to achieve mid-teens NAS EBITDA margins in FY22. The significant restructuring initiatives we undertook in late FY21 will support our commitment to deliver overall Enterprise revenue and EBITDA growth in FY22 across mobile, fixed and international.

Turning to Fixed Wholesale, where you can see that 55% of the portfolio is now ongoing revenue. Our outlook for this product has not changed. We are targeting to maintain around \$350 million of EBITDA per annum from FY23, once the portfolio stabilises and returns to growth.

Turning to our operating expenses, which you can see on slide 17. We are pleased to have achieved a significant reduction in costs during FY21. Total costs declined 10.2%, and underlying costs declined 9.3%. An increase in NBN payments of \$244 million was more than offset by the productivity gains we achieved. Other sales costs declined \$862 million, due to lower hardware costs.

Underlying fixed costs reduced by \$490 million as our T22 strategy continued to deliver productivity and simpler, better outcomes for our customers. This means since FY16, we have delivered \$2.3 billion of cumulative cost reductions, and we are confident we can deliver our \$2.7 billion target by the end of FY22. We continue to target top quartile cost metrics for our full service telco. We expect to finish FY22 just outside the top quartile, given our peers are improving more than we had originally anticipated.

Cost reductions in FY22 are expected to be delivered from digitisation benefits, including product simplification and customer self-service tools, reductions in IT and network costs, as well as ongoing vendor optimisation and labour efficiencies.

Turning to free cash flow which you can see on slide 18. We are very pleased with the improvement we have delivered in free cash flow. Free cash flow after operating lease payments increased 11.6% to \$3.8 billion, slightly above the top end of guidance. This was due to working capital improvements more than offsetting lower EBITDA. Working capital improvement reflects reduced receivables from lower sales, including lower handset and roaming revenue. In addition, focused initiatives were delivered, resulting in improved collections performance in both Enterprise and Consumer and Small Business.

In FY21, we also purchased 1 gigahertz of millimetre wave spectrum for \$277 million, with payment terms spread over five annual instalments.

We expect to receive \$2.8 billion of net proceeds from the sale of 49% of InfraCo Towers in Q1 of FY22. We are very pleased with a transaction

announced in June, which valued the business at \$5.9 billion, or 28 times EBITDA after leases. We will return up to \$1.35 billion of these net proceeds through an on-market buyback, expected to commence in mid-September.

Moving to dividends. The Board has resolved to pay a final dividend for FY21 of 8 cents per share fully franked, including an ordinary dividend of 5 cents, and a special dividend of 3 cents. This brings the total FY21 dividend to 16 cents per share. The total FY21 ordinary dividends represents 103% payout ratio of underlying earnings, and is well supported by cash flow. The FY21 dividend represents a 59% payout of free cash flow after operating lease payments, less net finance costs paid. Consistent with our commitment to return in the order of 75% of net one-off NBN receipts, we have returned 74% of receipts received life to date since FY18.

Turning to our capital position, which you can see on slide 20. We reduced net debt by \$1.5 billion in FY21, and we remain within our comfort ranges for all our credit metrics. We remain committed to our capital management framework, including balance sheet efficiency, and settings consistent with an A band credit rating. We successfully completed our T22 \$2 billion asset sale program, and announced an up to \$1.35 billion buyback from the Towers sale proceeds, reinforcing this commitment. Our target for underlying ROIC is around 8% by FY23, with a long term ambition to grow ROIC.

Turning now to FY22 guidance, which you can see, along with the assumptions and conditions upon which we have provided them, on slide 21 underlying EBITDA FY22 guidance implies mid-single digit growth, or around \$450 million at the midpoint. This guidance is despite remaining in-year NBN headwinds of approximately \$350 million in FY22. It also includes around \$50 million of non-cash, accounting headwind from insourcing our Telstra branded retail stores, and no return of international mobile roaming.

Pleasingly in FY22, we maintain a strong outlook on free cash flow, supported by further improvement in working capital, despite our expectation that one-off NBN DA EBITDA will reduce by over \$550 million. Proceeds from the InfraCo Towers sale, M&A, and payments to acquire licensees under our strategy to transition to full ownership of our branded stores, are excluded from guidance free cash flow.

To conclude, FY21 was an inflection point for the financial performance of our business. In the second half, you can clearly see strong momentum, leading to sequential growth in underlying EBITDA. We have confidence this momentum will continue. Thanks to ongoing mobile growth, continued delivery of our productivity program, solid free cash flow, including sustained improvement in working capital, and a strong balance sheet.

We will continue driving the performance and recognition of our world class infrastructure assets, as we illustrated through our agreement to sell 49% of our Towers business. In FY22, we expect to revise our disclosures to further elevate InfraCo Fixed and Towers, giving more focus and clarity on their performance.

We are also focused on diversifying our growth across other verticals,

including in energy. Telstra Health is well positioned, and we're excited by the inorganic growth, including from the recently announced acquisitions of Medical Director and PowerHealth. By staying disciplined and focused on delivering our strategy, we've put the business on course for growth in FY22, and on track to meet our FY23 ambitions. We look forward to talking more about our growth outlook at our September Investor Day.

Finally, I would like to take this opportunity to add my thanks and recognise our dedicated team right across Telstra. I'll now hand over to Nathan to take us through Q&A.

Investors and Analysts Q&A

Nathan Burley: Thanks, Vicki. We'll now start a Q&A beginning with investors and analysts. Now in addition to Andy and Vicki, also on the call today are Michael Ackland, Group Executive, Consumer and Small Business; David Burns, Group Executive, Enterprise, and Brendon Riley, CEO, Telstra InfraCo. Our first question today is from Kane Hannan from Goldman Sachs. Go ahead, Kane.

Kane Hannan: Morning, guys. Thank you for the questions, Nathan. Just three for me, please. Just firstly, Andy, on those FY23 aspirations. I think back in February, you indicated that the top half of that range is probably a bit out of reach for Telstra. So just wondering, following this mobile result, some of the price changes from your competitors, whether that comment still stands?

Secondly, just on the mobile margin in the second half at 41%. If we look out over the next few years as well, roaming recovering, some of these pricing trends still going north, do you see scope to expand that towards the mid-40s number? Or how do we think about what a sustainable or potential mobile margin is?

And then finally, just that free cash flow guidance into 2022, can you just give us a bit more colour around what's obviously a very strong cash result next year, I suppose what the working capital benefits are? Cheers.

Andrew Penn: Thanks very much Kane, and thanks for hooking in. Let me just comment on the first one, and then I'll hand over to Vicki just to talk about mobiles and free cash flow. And she may involve Michael Ackland in that as well.

But on the outlook, you might recall that the \$7.5 billion to \$8.5 billion we communicated – I'm trying to remember when it was now; I think it was at least a couple of years ago – as being the range that would be required effectively to support a dividend of 16 cents over the longer term. And the reason that range was quite a wide range, is obviously not only is underlying EBITDA important, but there's a number of other factors below the EBITDA line that go to Net Profit After Tax.

And so when we communicated that, it was, as I say, at least a couple of years ago, I think. And then it was also, we're still looking out a couple of years as well. So it's a long time into the future. And in my comments today, I made the point that our ROIC target, which is 8%, is in the bottom half of that range. So

candidly, that's where our aspiration and ambition is, and if we can do that, we will be able to deliver that performance we need for an underlying 16 cent dividend.

But what I should say is nothing has changed. We haven't changed our outlook in any regard. We still have the same outlook, we're still committed to do that. We're just conscious of that's quite a wide range, which is why we also said that come September when we talk about the next phase of our strategy, we will articulate our financial ambitions in conjunction with that, as well. So thanks Kane, and I'll head over to Vicki to talk on mobile margins and free cash flow.

Vicki Brady: Thanks, Andy. And thanks Kane for those questions. Just on mobile margin, well, firstly, second half of 2021, we're certainly pleased to have mobile EBITDA margins back in the low 40s. It's obviously a great place to be. As I talked about for FY22, we're expecting further service revenue growth and mobile EBITDA growth.

And as you said, longer run, there's lots of factors to play out, but certainly pleased with where the EBITDA margin is in second half. And we remain positive on mobile into FY22. And many things to play out beyond FY22. But obviously mobile a critical part of underpinning the growth in 2022, and our longer run ambitions as well.

Just on free cash flow. Yes, we're really pleased with our free cash flow result for FY21. We did have significant improvement in working capital. The major driver of that was in receivables, where we saw both in terms of handset receivables, improvement, but also really targeted initiatives in collections in Enterprise and Consumer and Small Business, which helped really deliver that working capital benefit.

As we look to FY22, we do expect sustained working capital benefit, so some further benefit. And again, it largely sits in the receivable space. There are a number of pieces that play a role. We are very focused on ensuring we manage working capital with great discipline. And so yeah, our guidance includes that sustained improvement in working capital, largely coming from, as I said, the receivable side as well.

Nathan Burley: Great. Our next question is from Entcho Raykovski from Credit Suisse. Go ahead Entcho.

Entcho Raykovski: Thanks Nathan. Maybe if I can follow up on those free cash flow comments. Interested in your perspective on whether the dividend policy is appropriate, given free cash flow is tracking so far ahead of NPAT? I know that's a question you've been asked before, but it seems like it is well ahead. So I would be interested in any updated thoughts you might have on that issue.

Just secondly, around the postpaid net adds that were up 21,000 for the half, which is obviously still growing, but a slow down from the 80,000 in the first half. So do you have any concern around this slow down? Especially you may

have seen Optus have just this morning reported that they've added 85,000 in the first half, so they're tracking a little bit better. So any concern around the slowdown, and what are your expectations into FY22?

And then finally, if I can throw last one in there, Digicel, I appreciate there may be only so much you can say, but are there any return hurdles you can talk about, that you need to meet in order for the transaction to work? And I mean, is there a concern about expansion into a region which has likely seen a pretty significant COVID impact?

Andrew Penn: Thanks very much, Entcho. Look on the dividend policy, our focus really has been to ensure we're on the right trajectory to sustain that 16 cent dividend for shareholders out to FY23. And we've talked a bit about that. In terms of payout ratios, we're outside of our current payout ratios. And we've been pointing to free cashflow though as an underlying indicator of the strength of the balance sheet and our ability to do so. So our primary focus right now, is to continue to focus on – or is to continue the trajectory to the 16 cent dividend. The Board hasn't made any further decisions or made any further comments in relation to dividend policy, so that's really just a matter that we'll obviously continue to, I'm sure, discuss. And if we have any updates, we'll provide them when we do.

On the postpaid trajectory, I'll get maybe again Vicki and Michael Ackland to comment. The one thing I would say is I don't think our postpaid handheld numbers are exactly comparable with Optus. They've got a few other things in there which we report separately. But they're more across that than I am. But I'll let them comment on it. But what I would say is that we have clearly been focused on driving value in our mobiles business, which as we said we would. And as a consequence, as you heard from Vicki, there's a \$290 million improvement in underlying mobile EBITDA in the second half. And good growth in services revenue.

There's no doubt that the market's slowed down overall, just in terms of level of net activity. And I pointed to population is going to – population growth has gone negative. First time in, I think, nearly 100 years. That obviously has an impact on the margins. And we have seen some slowdown in hardware and supply issues in hardware. But I'll let Vicki and Michael talk further about that.

On Digicel, you're right. And so I can't really say anything further, other than maybe make the comment that it is subject to meeting key financial metrics, as well as downside risk protection. And ultimately, as the Chairman said, we're only going to proceed with something if it's in the interests of shareholders. And at this stage, those discussions are incomplete, so I can't really say any more at the moment. But Vicki and Michael, I'm sure, want to comment on the postpaid performance.

Vicki Brady: Yes, thanks Andy,. Why don't I make a couple of comments, and then I'll hand over to Michael about the market dynamics. And so the thing I would say, so yes absolutely, you can see postpaid net adds second half are lower than first half. As Andy said, we have been very focused at getting mobile back to growth in terms of service revenue and EBITDA. And really pleased with that focus

on generating value overall in the mobile business. It is paying off. And we've had a very consistent strategy on that over a number of years now.

The thing I would point out in the second half in particular – and Michael might want to comment more – some of the price increases that went into our existing customer bases at the lower end of our plans, we did anticipate some churn as you do those price increases. And you can see that with a small lift in our churn in the second half in mobile postpaid. So that has certainly played out in the half. But as I said, really focused on generating value and growth in mobile in service revenue and EBITDA, which you can see strongly in the second half. I'll hand over to Michael.

Michael Ackland: Thanks Vicki. I think you and Andy covered everything pretty well there. I think the combination of the rolling retail closures over the course of the year, and also in the second half of the year, has definitely had an impact. The price rises early in the second half did lift our churn a bit, as planned. We've seen that come back to normal levels now. And we remain committed to delivering value, getting differentiated value in the market for 5G. And it has been a subdued market. But, no, we're not concerned around that second half SIO growth. And it's consistent with our strategy to drive for value, and we'll continue to do so.

Nathan Burley: OK, thanks. Our next question is from Eric Choi from Barrenjoey. Go ahead, Eric.

Eric Choi: Morning guys, thanks very much for the questions. First one, just on the SMB and Enterprise ARPUs, it feels like they might have been declining high single digit in the second half. So just interested in how much of that was general price deflation versus say roaming, or any significant re-contracting events? And I guess given that latest momentum, are you still comfortable there's enough juice in mobile for you to achieve your FY22 ambition for total Enterprise to get back to growth? So that's the first.

And then just on the second, I guess on the TMMC, there's still 25% of your base to transfer onto the new plans. So I guess can we safely assume first half 2022 TMMC growth is still positive, but maybe just at a nominally lower rate giving you're comping that \$3.30 TMMC growth in the PCP?

And then just the last question, in the presentation Vicki, you highlighted the pricing flexibility in the new mobile plans. And if I think about the industry cost base, post towers sales, that they're becoming increasingly CPI linked with the site leases and then you've got underlying wage inflation as well. So just wondering how you think about the scope for retail pricing to sort of grow in line with CPI, along with that cost base. Thanks.

Andrew Penn: Thanks Eric. And thanks for hooking in. It sounds like they're all for you Vicki.

Vicki Brady: Thanks Andy, and thanks Eric. It might be a combination of myself and Michael, I suspect, on some of them. But just in terms of – yes, I did give a little bit of information just so you could understand what's going on in the segments in mobile postpaid. And so, yes, as I've said, we can see Small

Business ARPU sequentially growing. And we saw Enterprise stabilise. And so again just reinforcing, we expect in FY22 that those two segments in postpaid handheld ARPU will follow consumer to growth. And so we're confident about that.

In terms of Enterprise overall returning to EBITDA growth, you can obviously see in our FY21 results, Enterprise EBITDA declined around \$360 million. In terms of getting it back to growth, yes mobile plays a part. However, the decisions we've taken in the second half in Enterprise, that David has implemented on the cost and restructuring side, along with allocation of productivity benefits from across the group, they absolutely play a big part in the return to growth, as does NAS. So that focus on our NextGen strategy in those strategic areas, play also an important role as we look to returning it to growth. So we remain confident of the ability to return the Enterprise business as a total portfolio across mobile, fixed and international, to growth in FY22.

Just on TMMC, and the customers still to transition, I might get Michael to comment in a minute a bit more, but he can talk a little bit more about that in detail. But I would just say, in terms of TMMC, it is accretive to ARPU, and we do expect TMMC to grow again in FY22.

And then around pricing flexibility, yes, as you know, it's a big change by moving our customers onto our new simplified plans. We no longer have a back book. So any pricing changes we make flow through immediately.

In terms of the question about will we do price rises indexed to inflation, certainly a question we've had before. We look at many other industries and approaches, and it's something we'll take into account if we think about future pricing changes in our mobile portfolio. But I might jump across to Michael to talk a little bit about the 25% of the base you were asking about. So, Michael, over to you.

Michael Ackland: Thanks Vicki. And I think, once again, the summary is pretty good. So we expect, as we go through the rest of that base, that we'll see a little bit further TMMC lift. More in the first half, but as you said, at a lower level. But still positive, and still TMMC accretive to underlying ARPU. I would agree. I think that having the no back book model that we've put in place, and as that rolls through the rest of the base we will get into a position where we can think about how we might index prices, or do other things with prices. But I think the really important thing is this no back book does give us flexibility. It also means that our customers are always on the latest plans, and no one gets left behind. Which I think is also an incredibly important position to be in. And there's been a lot of hard work to get us to where we are. Thanks.

Nathan Burley: Thanks Michael. Our next question is from Lucy Huang from Bank of America. Go ahead Lucy.

Lucy Huang: Thanks, Nathan. And good morning Andrew and Vicki. I just have three questions. So firstly, just in relation to your EBITDA guidance, have you factored any further COVID headwinds moving into FY22, given borders are unlikely to open?

And then just secondly, in relation to Enterprise, I think you mentioned you were seeing some competition from competing technologies such as over the internet with SD-WAN, just wondering if you anticipate there to be a need in step up in CapEx just to stem off some of this destructive technological competition moving forward?

And then just thirdly, if you can provide us some colour around the revenue contribution from Medical Director and PowerHealth, that would be great. Thanks.

Andrew Penn: Sorry, Lucy, just before I do. Can you repeat that last one? The what contribution from PowerHealth and Medical Director?

Lucy Huang: Sorry, the revenue and EBITDA contribution.

Andrew Penn: On the EBITDA headwinds, I'll get Vicki to comment. I think obviously probably the most significant one is just continued softness in – not really softness, but complete reduction in international roaming. On Medical Director and PowerHealth, I'll make a strategic comment. And Vicki, I don't know how much we've provided in terms of revenue and EBITDA contributions, and what we can say. But, look, from a strategic point of view, as I said in my address, digital health has always been important, but just the last 12 to 18 months has obviously just reinforced how incredibly important it is.

Telstra Health is actually now the largest electronic health company in the country. We employ more than 1,200. This is before these acquisitions. And it's growing strongly, as I said, the revenue was a bit softer than we wanted it to be this year. But that was because we held a bunch of things in pipeline, which is why – and then of course all those health organisations to whom we were looking at those contracts, obviously got completely distracted onto COVID. But we're confident – actually what COVID has done is reinforce the importance of those contracts. So they haven't gone away. Which is why we're confident of that quite strong growth in FY22.

And Medical Director is just such a crucial – crucially strategic asset. It just sits at the apex of the whole healthcare system, because it's your GP, and that's where you go to get your pathology referrals, where you go to get your consultant referrals, where you go to get your prescriptions. And they're all of the things that we're linking. So that's really important. But I don't know how much we're able to say on revenue and EBITDA both on that and on PowerHealth.

But with that said, why don't I hand to Vicki to add any comments – more comments on EBITDA, your first question on EBITDA headwinds. We'll maybe get David to comment on your question around the consequences of SD-WAN in the acceleration towards that as a technology. And then also Vicki if you have anything more colour we've got on Health then I'll let you share that.

Vicki Brady: OK, thanks Andy. And thanks Lucy for the question. Just on PowerHealth and Medical Director, obviously Medical-Director still subject to completion. So I won't go into the detail of the financials for each at the moment. But broadly, both – we're very positive about both acquisitions, as Andy just spoke about. Both generating EBITDA, generating cash, earnings accretive. So financially we're pleased with those acquisitions as well as the strategic side. We are going to come back and talk more about health down the track. It is a question, again, we get quite a bit. And so providing a bit more transparency around the Health business and financial performance is something that we'll come back and do.

Just in terms of COVID impacts. So if you think about FY21, we had overall \$380 million of in-year impact from COVID. That was made up broadly \$200 million of roaming, about \$100 million of cost-out that we were – we made the decision to delay during the midst of COVID. And then finally, customer related support. So as we look at FY22, there's really no more roaming to lose. So there's no additional headwind on roaming. On cost, we've proceeded with decisions we made, and so those delays on cost reductions are no longer there. We will see the benefits of decisions and restructuring, and those costs benefits flowing to FY22. And they support our net \$430 million of additional cost out.

And we have – we've not allowed additional amounts for customer support packages in FY22. So overall, we're not predicting COVID-19 impacts in the same way as we've seen in 2021 and 2020. So just to answer that question.

And then I will hand over to David on TE. But just on the CapEx component of that, obviously our CapEx guidance is based on a plan that assumes support for all our key strategic initiatives, including in the Enterprise space. So I'm comfortable we've got the CapEx in plan needed to support the Enterprise business. But I'll hand over to David for some more comments on Enterprise.

David Burns: Great, thanks Vicki. Just to add some colour around the question of SD-WAN, I think there's two or three things that are really important milestones that we've executed in 2021. One is the release of our adaptive network offerings. There were some mobility offerings as well. But in that adaptive network around our fixed network offerings, that to me strengthens firstly our T-fibre options – our Telstra fibre options – in the marketplace and our presence. It secondly includes strong presence of NBN Enterprise Ethernet offerings in that environment. And so we're more strongly a multi-network organisation today than we were yesterday.

And to enter into the SD-WAN marketplace and be successful in that, quite frankly you need to have a strong multi-network managed services offering around that in our Telstra Purple or NAS environment. And we're continuing to invest and harden that environment. That's not capital intensive. So again, all those pieces fitting together, I think we're responding well to that. There are a couple of customer events in the first half of 2021 which were highly competitive and not the outcomes we were looking for. And I think since the first half of 2021 we've actually competed really well in market with that.

So I'm excited about what SD-WAN offers, and I'm excited about how we are ready to respond to that. And as Vicki has just said, I think that's within the

normal bounds of our capital environment. So, thank you.

Nathan Burley: Excellent. The next question is from Tom Beadle from UBS.

Tom Beadle: Hi everyone. Thanks for the questions. I'll just ask two. Just firstly on guidance, I'm trying to bridge that \$450 million gap from FY21 to FY22, the EBITDA, at the midpoint of your range obviously. But could you just give some more colour into the underlying assumptions in that? There's obviously that \$350 million NBN drag. You've got the \$430 million of cost saving. So that leaves you with about sort of \$200 to \$500 million of other growth in there. I realise there's a growth in mobile, and I'd estimate about every dollar of your postpaid ARPU growth is worth roughly \$100 million. So how much ARPU growth are you assuming in that? And also is there anything else worth highlighting?

Second question is on M&A. Telstra Health obviously made those acquisitions, and there's the potential investment here in Digicel as well. Does this represent a changing attitude to M&A? And you're obviously most likely to generate higher cash flow than earnings for a number of years now. So could we expect that you might use that excess cashflow to undertake M&A rather than pay down debt? And also to what extent are you prepared to actually take on more debt if the right opportunity comes up? Thanks.

Andrew Penn: Thanks so much, Tom. I'll let Vicki comment on the guidance and, , you've already sort of pulled out obviously the productivity, mobiles, the NBN headwind sort of softening or reducing, which is obviously all part of it. As well as Health, as we were just talking about, is improving as well. So there's a few things there. But I'll get Vicki to just speak to that. On M&A, no I wouldn't say there's been a change of strategy in any sense. We are obviously open to acquisition opportunities where they can add value, and where they meet certain criteria. Particularly where they're as strategic as the Medical Director one is.

There's no doubt on Health that when I became the CEO, I felt that we needed to consolidate what we had acquired and really sort of focus the strategy on Health. And that absolutely lead to a concentration on organic, and doing that. And the team has just done an amazingly outstanding job. And as a consequence, I think we're in a super, super position. And sometime, probably over the next – within this financial year, we'll do a bit more of a deep dive for the market on Telstra Health, because I think it's a really exciting business, in a great place. And this Medical Director acquisition is something that is very, very strategic. So that's sort of, in a sense, it's been a consequence of just when Medical Director – we couldn't determine when Medical Director was going to come to market, but it happened to be now.

So there's no real change strategically, as I said, in relation to Digicel, is that were that transaction to proceed, our investment would be the minor part of the overall financing of that. And I mean the real minor part of it. Albeit we would own the asset and consolidate its financials, if that's what occurs. And then with the rest of the financing being provided on a non-recourse basis. So in terms of – so that – you shouldn't take it as any sort of signal of a change of strategy on M&A. We'll continue to look at M&A opportunities as and when

they arrive. I mean obviously doing anything in core telco is challenging, because of our scale from a competition and regulatory point of view. But we continue to look at opportunities in Telstra Purple, in services, in other parts of our business as well.

And then Vicki, as I sort of pass over the guidance question to you as well, you might just want to comment on the balance sheet and the question around debt et cetera.

Vicki Brady: Yes, thanks Andy for that. And I think on the balance sheet, we're incredibly pleased with where we sit at the end of FY21. We obviously had a clear focus in T22 to retain that balance sheet strength and flexibility. And obviously our free cashflow being as strong as it is, has allowed us to pay down debt of \$1.5 billion. So it's put us in a good position. But as Andy said, there's no change in stance there. And we remain committed to our capital management framework around the A-band settings. So I won't add anymore to that.

Just in terms of the \$450 million of underlying EBITDA growth at the midpoint of guidance, Tom I think you've hit on a number of the key things. I would always start with mobile. Mobile is obviously critical, and you can see that strong EBITDA growth in the second half of [FY]21. So we are expecting both service revenue and EBITDA growth. And that EBITDA growth will be supported by the service revenue, and also the final benefits of customers transitioning, or subsidy and lease plans, combined with some of those cost productivity benefits flowing in. Because you're right. Cost out plays into the entire portfolio and is critical as well.

The couple of things I would add. You think about that NBN headwind, and I know you mentioned it, we're about 90% of the way through that. And particularly for Fixed Consumer and Small Business, the stabilisation – that continuing to stabilise is important. So there's been a big drag on the business from the fixed Consumer and Small Business portfolio. So that is a key piece.

And then the final piece I would say is an area I commented on earlier, which is about Telstra Enterprise return to growth in FY22, in terms of its total portfolio of mobile, fixed and international. So they would be the key pieces I would think about, as you're thinking about that outlook for our underlying EBITDA growth in FY22.

Nathan Burley: Great, thanks Vicki. Our next question is from Roger Samuel from Jefferies. Go ahead Roger.

Roger Samuel: Good morning all. I've got two questions. The first one just on the NBN resale EBITDA margins. So Vicki mentioned that it was around 5% in FY21. Can you share with us what the margin was with NBN in the second half 2021? And how would you be able to get to mid-teens by FY23? Are you going to be driven by cost out, whether it's fixed wireless rollout, or price increases?

And my second question is, just regarding your FY22 guidance, obviously cost out plays a part there, but are you concerned at all with cost inflation, given how difficult it is to get good talent? And also the cost – yes, the costs maybe

going up as well?

Andrew Penn: Thanks very much Roger. Thanks for the questions. I'll get Vicki to comment on the fixed NBN res margins. But suffice to say we need to pull all of the levers that you referenced. It's obviously a big stretch for us to get to that mid-teens aspiration by 2023 from where we are today. So we're going to have to pull all of the levers and some. But I'll get Vicki to talk through that.

On the cost out, no we're not concerned. I think you make some really relevant points around inflation and obviously the war for talent. So they are pressures. But the way we look at our cost and productivity programme, we're pretty – I think we've got this down to a pretty good art now – is that going into the year we're already carrying in quite a bit of momentum from decisions that we've already implemented – made and implemented, and we always go into the year with a pretty good eye on how we solution any of the additional productivity that we need to deliver our commitment, which is \$430 million for this year. And in fact, we obviously over-achieved in FY21. And I think we pretty much have consistently through the programme. So I'm pretty confident we've got our arms around that. But Vicki, over to you.

Vicki Brady: Yes, thanks Andy for that. And Roger, yes, in terms of NBN resale margin, just looking at FY21, pretty consistent through the year, around that 5% EBITDA margin on NBN resale. So no stark differences first half, second half. Just in terms of the mid-teens, it is an ambitious target and we remain committed to it. As Andy said, it is going to involve pulling all of the levers. So on the revenue side, we're pleased with the progress on customers adopting and taking up higher speed plans. Profitability is better on those higher speed plans. And customers are looking to take advantage of those higher speeds. So there's still opportunity there.

We're also still focused on add-ons that are valuable to customers. That's an important component as well on the revenue side. On the cost side, there's still benefits to come, as we keep digitising our fixed customers across to the new digital stack, so moving them across to that more simplified environment. It's also helpful for us on the cost side. It takes out some cost at the back office side of our business. Obviously productivity overall across the company, which Andy just referenced, is important to delivering that as well.

And then, as I framed, we're a long way through the NBN migration now with about 150,000 services left to migrate. Less than half of what we've done in FY21. And so obviously cost comes with that process of migrating customers as well. So there are a number of things. We've got to be pulling all those levers. And I can assure you, inside the business, there is a lot of focus and many initiatives underway to support that ambition that we've got. So they would be my comments. Thanks Roger.

Nathan Burley: Thanks Vicki. Our next question is from Fraser McLeish from MST. Go ahead Fraser.

Fraser McLeish: Hi guys. And well done on that mobile performance. Great to see it back to growth. Just, yes I think I've got three as well. Just firstly on InfraCo fixed and

further asset monetisations. What are some of the possible barriers to do further monetisations there? Maybe operational, and I guess approvals, I'm thinking of.

Second one, just on the spectrum options up later in the year, Andy, should we think about that as the likely cost being similar to 700 spectrum, or to some of the higher bands? And I think you currently have that through the P&L, the cost as an apparatus licence, can you – Vicki, if you could give us an idea of what that cost is, that would be helpful.

And then finally, just Vicki on the D&A guidance you've given, I think you've said minus \$100 million next year. Were you not previously talking about minus \$200 [million] to \$300 [million]? And that does leave D&A still miles above CapEx, and should we still be expecting that D&A to trend down to CapEx over time? Thanks.

Andrew Penn: Yes look, thanks very much Fraser. Thanks for joining. I'll make a couple of comments on the InfraCo point, but then I'll also invite Brendan to talk about some of the operational steps that need to be put in place to take advantage of any opportunities there. On the spectrum auctions, I can't comment on what you should expect for governance reasons in relation to that auction. Sorry, I don't think I can add anything there. I'll ask Vicki to comment in terms of from an accounting point of view. And then Vicki on the D&A guidance.

But just firstly, on the monetisation of InfraCo fixed, I think the first point to make is that we're clearly very committed to our strategy to set up our infrastructure businesses as standalone business unit, for the reasons that we mentioned. And there were three reasons that we gave when we launched T22. They haven't changed. And I think we've demonstrated we're delivering on each of them. And particularly with the towers deal recently, that obviously just validates that that strategy is the right strategy.

InfraCo fixed and setting that up is a far more complicated, and a much bigger exercise than on the towers side. For a whole range of different reasons. Not least of all because actually the economics of our InfraCo fixed business, are actually six times the scale of our towers business. So it's obviously much bigger. And then there's more complexities associated with it because obviously the contracts and relationships with NBN and other key customers, and there's regulatory considerations and such. So we're working through all of those.

And as I mentioned, we still anticipate that that will be given effect through – a scheme of arrangement. But ultimately, the final complexities of that will determine that, and we'll talk further about it in the coming weeks. Or rather, certainly no later than the strategy update on the 16th of September.

So I might – but what I should say, sorry, in addition to that, I was going to comment, obviously we're doing that to create optionality to create more shareholder value. So that's absolutely the intention behind that. But I might hand over to Brendan just to talk about what's involved from an operational point of view, having sort of gone through the towers exercise and we've done

a lot of work on the fixed side. But it's – as I say, it's a big project. And then maybe Brendon can hand to Vicki to pick up those other points.

Brendon Riley: Yes, thanks very much Andy. Yes, Fraser, thanks for the question. Yes, the towers process was, I think, a great learning experience. And I think there's a couple of things. One, we did have a huge amount of the base work done, so when that offer came in from the Future Fund and Morrison & Co, we were able to respond, I think, pretty quickly and definitively. And to Andy's point, the amount of work that is going to be required to put ourselves in a similar position with the fixed assets, given it's multi-asset, given it's a \$1.5 billion EBITDA business versus a couple of hundred million EBITDA business, means it's a lot more complex.

But I think, in terms of building out all of the data side of it, property is a really big one. All of the commercial contracts and arrangements that we have with third parties, all of the commercial arrangements we put in place with Telstra itself, that's where we've got a huge amount of work to do ahead of us. But we're going to take the same approach that we did with towers. We're going to start that work and put ourselves in a position where we can be ready. Obviously one of the differences with the portfolio is NBN is a major customer. The government has obviously a point of view on the assets. So we just need to make sure that we are doing all the right consultations and partnership work with NBN and the government.

We'd probably prioritise some of the activities around towers ahead of the other assets, so we could be ready for monetisation. So I think we've made good progress on fibre, good progress on ducts. We've seen some new product releases in the data centre space in the last week or so. On the fixed network sites, the old exchanges, that's probably where we've got more work to do in the year ahead. So I'll pass back to you, Nathan.

Vicki Brady: And just in sort of the last couple of questions. No, no problem. It's a little bit different in a virtual environment. So, Fraser, just your question, I think you were asking about the accounting treatment of the apparatus licence. Can I just confirm, is that what you were after? Is there any different treatment, was that the question?

Fraser McLeish: Just I guess, that spectrum, you're now paying for it on an annual, I think, as an apparatus licence. And I'm hearing it's going to switch to you're going to pay for it upfront at auction. So just how that's going to work, thanks.

Vicki Brady: Yes. So the way we pay, so where we're doing the equal instalments, accounting might still treat it the same way. So intangible which gets amortised through. So no change in treatment of that.

And then just on your question in relation to D&A. So you're right, we had expected that D&A– in FY21 and FY22, we expected about \$300 million per annum reduction in each year. So \$600 million across the couple of years. What you see in FY21 is we've actually achieved a D&A reduction of about \$400 million. So we're a little bit ahead in-year. So \$400 million delivered this year. And that's really come because of the legacy IT applications end of life being a bit ahead of

where we anticipated. So we've achieved \$400 million out of \$600 million that we had previously spoken about. In FY22, I mentioned that in the ordinary course we would expect another \$100 million reduction. So it is – it's a little bit short of the \$600 million. We're about \$100 million short of the \$600 million. And the reason for that is there are some D&A associated with the insourcing of the stores, and then some of the M&A transactions. So overall we have spoken about \$600 million across the two years. We expect about \$500 million in the ordinary course. And the reason for that \$100 million difference, as I said, is insourcing of stores and M&A impact on the D&A. Thanks Nathan.

Nathan Burley: The next question is from Ian Martin from New Street Research.

Ian Martin: Just three quick questions. First, the 5G market's clearly getting more contested. Optus back in the game it seems with particularly metro markets on – nobody commented on coverage – but the focus of competition is metro markets, particularly going into the December quarter. TPG's going to be more – have better coverage by then. They have lower price points, and I just wonder are you prepared to let market share slip in that quarter – or this half year – or are we likely to see some kind of price response?

Secondly, EBITDA at \$7.5 billion was your target, you said could support a 16 cent dividend. With the buyback, I guess that number's going to be a bit lower. Are you in the ballpark to support that next year? How much net one-off NBNs remaining? About \$400 million or so, I think.

And finally, you mentioned 150,000 fixed line services yet to migrate. What will that leave with Telstra in terms of you've obviously got some fixed lines you've got to continue in areas NBN doesn't cover? And how material is that to particularly the cost framework?

Andrew Penn: Thanks very much, Ian. I might get Vicki and Michael, in particular, to comment just on the sort of the competitive dynamics. But I think the reason Optus are focusing on metro markets is that they're so far behind from an overall network perspective. And I think TPG are a long way back on 5G. So we're going to continue to press our advantage on 5G, and our network, and our rollout. And we're very confident about our ability to continue to compete. But I'll get the guys to comment on that. Vicki might comment on the EBITDA range.

I think your question really is, is that if we were at the top end of the range of guidance for the current financial year at \$7.3 billion with the trajectory of D&A and with the implementation of a buyback, how close would that get us to underlying earnings supporting a 16% dividend on standalone basis, and 90% payout ratio roughly around that. My instinct is that that would still be a bit short. And I should say our aspiration is to get in the range of \$7.5 billion to \$8.5 billion. I did say 8%'s in the bottom half of that. So my guess is it would be still short in 2022. But Vicki might want to confirm on that point.

And then as regards your other question about what's left with NBN after the 150,000 retail customers, I think the most significant thing – and Michael can comment on this – would probably be SMB, which would be a bit further

behind in the rollout. But maybe I'll go to Michael first, and then maybe Michael can hand to Vicki.

Michael Ackland: Yes, thanks Andy. And thanks for the question. Just on 5G competition, I think Andy made the point, Optus are focusing on the metro markets. They're also focusing on getting value and price for 5G as well. And I think that's good overall for the market in terms of pushing the value of the 5G experience, which our view would be coverage really matters for any mobile experience. We're really committed to getting value, and we think we can get value and share. But it's a competitive market and that just makes us do better.

In terms of what's left on NBN, obviously there's the last 8%. We will be, in terms of the migration activity for Consumer, there's very little left to migrate beyond this financial year. And probably the tail is a little bit longer for SMB as that moves through. But I think this year, as Vicki said, we'll migrate half as many as we did the previous year. And then into FY23 another dramatic reduction and the tail will really be in SMB.

Vicki Brady: Thanks Michael. And thanks Ian for those questions. Just on the first one around – I think you were asking about the net one-offs still to come from the NBN.

We're expecting those to be around \$250 million in FY22. So that goes to your question that you were asking about around payout ratios etc. So obviously we've been clear, we've got to get to that – in that range of 7.5 to 8.5 under our dividend payout policy. However, John – our Chairman – was very clear at last AGM, the Board considers a number of factors that they have done again this time in terms of likelihood of our ambition to achieve that. So having that confidence of getting in that range, free cashflow plays an important part. And obviously we're very strongly supported with free cashflow. So there is \$250 million of the net one-offs we expect still to come in FY22.

And then just on the final question around the services we're left with post the full transition to NBN. So the last 8%. Yes, there are definitely costs associated with that. And we've actually got an ambition out there to say that we limit those legacy losses to around \$100 million per annum. So you're right, there are costs. Unfortunately to service the last 8%, it's a lot more than 8% of the copper network, just given the geographic spread. So, yes, we have got an ambition to limit those losses to \$100 million per annum. I'll go back to you Nathan.

Nathan Burley: Thanks Vicki. Our final analyst and investor question comes from Brian Han from Morningstar. Go ahead Brian.

Brian Han: Thanks Nathan. Just some quick questions. For NAS, given the poor result in FY21, what's specifically gives you the confidence that margins can rebound so quickly to mid-teens this year?

And just putting aside Medical Director and PowerHealth, is Telstra Health actually profitable now?

And Vicki, finally, do you have any guidance on what restructuring expenses there may be in FY22? Thanks.

Andrew Penn: Thanks very much, Brian. I'll comment on the Telstra Health question. And then I'll ask David to talk about NAS margins and the confidence he has to turn that around. And then also Vicki to comment on your last question as well. So on Health, I remember actually this time last year referencing the fact that Health had achieved a profitable – its first profitable month in May of last year. However, it was not – it was negative EBITDA in FY21. And as I mentioned before, that's because we sent a – we didn't achieve the revenue outlook that we were anticipating. We've continued to ramp up our investments, and our OpEx, to support the trajectory of the Health business. And that was a lot to do with the fact that whilst on the one hand, we saw a lot of demand for our virtual health platforms and other electronic services.

On the flipside, we had a number of contracts in pipeline with healthcare organisations, and those organisations were understandably – as COVID had an impact – their focus was on actually responding to COVID according to how they needed to respond to COVID. So a lot of those sort of contracts in the pipeline projects got effectively delayed.

Now the good news is though, is that notwithstanding that, what COVID has actually done, it's made those contracts more important for those customers, rather than less important. And we do have a very strong pipeline which is why we've made some strong comments about our revenue growth in 2022. So, as I say, it was EBITDA negative this year – last year. That's because we've continued to focus on the growth of the business. But we are confident of Health achieving profitability in the near term. But more importantly – candidly – growing. Because it's an incredibly positive business and both of the acquisitions that we've made are EBITDA positive as well. David.

David Burns: Thanks Andy, thanks Brian. And it's a question that I'm sure is on everyone's mind about returning NAS to mid-teens profitability. It's a combination of three things, as you would probably anticipate I would say. In 2021 we had a couple of one-offs which I don't expect to see again. But most importantly, we made some reasonably significant decisions on cost and structure. And that gives us an enormous backlog or momentum in cost management as we enter into 2022. We have more decisions to make in the year. But given – I will be quite honest and say the lack of decisions made in 2020 that flowed into 2021, we're in an enormously different position as we start the year from a cost structure, and the costs that flow into that NAS business.

And then most importantly, is our trading actions for our offerings, and products, and services, in that NAS business. And I'll comment on two or three areas. Our PS business – professional services business – did have a poor year in 2021. The decisions we made, I needed to make on restructuring, had an impact to that PS business through the second half. In particular, the third quarter of the year. And flowed on into impacting our revenue and return of that second half of the year. But what I can say is that the sales performance that picked up in the fourth quarter was extremely strong. Our PS business is

reasonably a 90 to 180 day booked to bill business. And the backlog that we enter into this year for the first half of this year, is extremely strong and extremely encouraging and positive.

The second area I would talk about is what we call our next generation growth. In particular our cloud and digital based services. We signed very significant partnerships with, in particular, AWS and Azure. We also work with all the other hyperscalers. But in particular those two through the second half of 2021. And again, we can see the momentum in the performance in that business. Strong performance also from our managed network services business. And we'll need to continue to watch the impact of the calling apps business on our performance. But collectively between those three areas: one-off, extremely strong cost management, and flow into the 2022 year from decisions in 2021 and the start of the performance of our PS, our next generation cloud managed network services business as we start the 2022 fiscal year - is what gives me that confidence of returning that business to those healthy margins that we would expect. Thanks Andy.

Vicki Brady: Thanks David. And Brian, just to come back to your last question, which was around restructuring costs. As Andy mentioned earlier today, we're obviously through the significant reduction in headcount. Completed that under T22. So that was the driver of restructuring costs looking backwards. As we look at FY22, I do expect some restructuring costs associated with the legal restructure of the group. However, they'll be significantly less than FY21. And Nathan, back to you.

Nathan Burley: Thanks Vicki. So after a short break, which we will now take, my colleague, Nicole McKechnie, will chair a media Q&A.

Media Q&A

Nicole McKechnie: Good morning everyone, and welcome to the media part of today's annual results. Thank you very much for coming along. I've got Andy with me, who's very happy to answer your questions. And we do have a few questions in the queue. So let's get into things. And the first question, Andy, is from Zoe Samios from Fairfax. Zoe, good morning.

Zoe Samios: Good morning. Hi Andy, congratulations on the results today. Just two things from me. Just regarding the most recent lockdowns across Australia, has there been any impact on earnings or distribution of services that you've seen?

And secondly, there's been a lot of speculation in market about the potential for a Foxtel IPO. I know that's been floated before, but I just wondered if you had any comments on that, and whether it's the right time to list on the ASX?

Andrew Penn: Thanks very much Zoe. Good morning, and thanks for joining us. Just on the first part of your questions, in terms of obviously impact on services, absolutely there's been a sharp increase in demand for connectivity and data volumes obviously across the fixed network as people have necessarily had to move to work and study from home. That's put pressure on CVC charges for sure. I think we've incurred about \$15 million worth of extra CVC charges just in this

last – since the beginning of the lockdown. So that’s certainly had an impact. We factored that in – I should say we factored that in so far at least in relation to our guidance. But that’s not a comment on the guidance on that, but just as a direct response to your question. But we’ve absolutely been able to meet those requirements and keep customers connected and all of those things, which is great.

Look on Foxtel, what I would say is that my strategy on Foxtel has never changed. I’ve had lots of helpful pieces of advice about our position in relation to Foxtel. But I’ve always been a very passionate and strong believer in the value of really high quality content. And our customers love it. And therefore our partnership with Foxtel has always been crucially important because we’ve been able to give our customers access to that content.

It was clear to me that Foxtel was going to undoubtedly go through a period of very significant disruption just because of obviously what’s happened in the whole streaming market, and anybody could see that. And so therefore, it was important for us to restructure our investment – which we did at our lead – several years ago, where we consolidated Foxtel and Fox Sports. And we took a 35% investment in the combined entity, in exchange for a 50% investment in just purely Foxtel.

And that strengthened the business. It strengthened our position. Kept us as a great cornerstone investor. From there, enabled us to continue to have access to that great content which was we do. And of course that strategy – and absolutely validated, as Foxtel. And I’m happy that the team have done a fantastic job turning the business round. And as you saw last week, subscribers and streaming is going back gangbusters. I’m delighted with that.

Telstra’s doing a lot of stuff behind the scenes, obviously, in supporting that distribution as well, which is super exciting.

Whether Foxtel IPO or not, obviously that’s a matter for Foxtel. But if that’s a decision that also helps further support the further growth of what’s the best media company in the country, then we would certainly be supportive of facilitating that. But to be clear, we continue to be a keen and happy and supportive investor in Foxtel. And that’s where we’d like to continue.

Nicole McKechnie: Right, thank you. OK, thanks Zoe. Our next question is from Jen Hewett from the AFR. Hi, Jen.

Jennifer Hewett: Hi. Just a couple of questions. One is, Andy, you obviously had a couple of sharp responses in your posts yesterday to the ACCC suing you. I’m just wondering if you think – and you said it was the beginning, the process from the beginning that was the problem. Do you see that changing at all? And how would you rate your current negotiations with NBN about pricing?

And secondly, with Digicel, would you ever have considered such an opportunity without the government strongly encouraging you, and becoming part of the process?

Andrew Penn: Thanks very much Jen. On NBN, I think the fundamental point I was really getting at yesterday, is that there's obviously a problem in the process, because the whole of the industry has struggled with this issue about the convoluted process of needing to sell customers' plans and go back and check speeds, and then go backwards and forwards. And I know, because I've spoken to Stephen, Stephen's very supportive of trying to find a better solution for everybody. And I appreciate Stephen's support in that regard.

And so that's what we've got to do, I think, as an industry, we've all got to come together to try and find a better way to do this, so that we don't actually drive more complexity, and more to-ing and fro-ing into the whole process. And so I think that really tackles the first one.

On the pricing aspect of your comment, which you referenced as well, I think people are very aware of what my views have been on the pricing structure, and the level of pricing for a good number of years that I've been talking about that. And I think all I would really say is I'm pleased that the ACCC is now conducting a review of both those things, both the structure and the overall pricing, as well. And we'll obviously support that in any way that's helpful for us.

But I think it's the right time to do it, because obviously, we're now at the end of the rollout of the NBN. And I think what the last 18 months has shown is just how important connectivity and the home internet is for everybody, not just to live their private lives, it's actually to work and study and do really essential things. So now is the right time to make sure we've got the right framework set up for the future.

On Digicel, and I think as the Chairman indicated, this isn't something that was ordinarily on our strategic agenda. And the government asked us to assist in relation to the consideration of it, and we were happy to do that. Ultimately, we won't go forward with any particular involvement in it, unless it's in the interests of shareholders. And that therefore means there needs to be certain protection and financial support put in place. But ultimately, we're Team Australia, and if we can find a way to support and help the government, and for that also to be in the interest of shareholders, we have a very strong relationship, and obviously many points of engagement and interdependency with the government, then we would do so. But ordinarily, it wouldn't have been on our strategic agenda, you're right.

Nicole McKechnie: Thanks, Jen. Thanks, Andy. OK, next question is from Evita Ratala from Bloomberg. Good morning Evita.

Are you with us Evita, just checking? No? OK, we might move on. I think I've got Rohan Pearce from CommsDay, hopefully.

Rohan Pearce: You do. Just two quick ones, Andy. It looks like very strong, mobile wholesale service adds. I'm just wondering if you can kind of elaborate on where they're coming from?

The other one was, you mentioned briefly 5G home internet becoming

available in FY21. I'm just wondering, the status and availability and uptake, and I guess do you anticipate a full-scale launch of that service in FY22?

Andrew Penn: Thanks very much, Rohan. So firstly, yes, I'm very pleased with our mobile, postpaid handheld net subs growth. I mean, as I mentioned in my commentary, I certainly think the overall market has been slower. And I think we have seen as a consequence of COVID, just a reduction in, as I say, net migration into Australia, net population growth, as well as some supply chain issues that the major handset manufacturers have experienced, which has led to a lower number of devices available, which doesn't necessarily have to flow through into service plans, But can have an impact as well. It certainly impacted our gross revenue, not that it has an impact from an EBITDA perspective.

But notwithstanding that, we saw Belong had growth, Telstra branded had growth, and we also saw pretty good growth in our Enterprise part of our business as well. So that's been pretty solid.

On 5G home internet, we have thousands of customers on 5G home internet at the moment. We've only been offering that on a very targeted below the line basis, as we make sure we get the product proposition right, we understand the network dynamic. Because the last thing in the world we want to do is to offer a customer a service, and then not deliver on a service that's in their best interest in making sure that it really improves what they have at the moment. Which is what that's all about.

And I've long said on this topic that fixed wireless isn't for everybody, because the NBN provides a great service in many respects. Having said that, there are some homes, particularly customers that might be on copper services and services that are not capable of better speeds, where a 5G fixed wireless solution actually is a great alternative. And so that's what we've been focused on understanding and targeting. And you should expect us to go above the line on that in the coming period.

Nicole McKechnie: Thanks Rohan, thanks Andy. We are going to try and see if we can get Evita back now. Are you with us? No. Maybe still on mute. We'll try and get her off mute. And we'll go to Dave Swan, and let's see if we can bring Dave Swan up. Are you with us Dave?

David Swan: I am. Sorry, I think Rohan just had a quick follow up, I think you missed his – he was trying to follow up, I think.

Nicole McKechnie: I didn't hear him. I'm very happy to go back to Rohan then.

Rohan Pearce: Clarify on the net wholesale mobile adds, and where they were coming from particularly?

Andrew Penn: Yes, no, thanks. That was very gentlemanly of you Dave, well done, thank you. No, the wholesale net adds have very much been our two biggest wholesale customers, being Aldi and Woolworths. And they both performed strongly.

Nicole McKechnie: Thanks. I'm sorry I couldn't hear you, I'm not sure why that didn't come

through. I'm going to try Evita one more time, and see how we go. And if not, we'll have to come back to her at the end. If not, then Dave, you are up, and thank you for being very gentlemanly. Can I just check and see if Evita is with us? No. I may have to give up for today. Dave, you're up.

David Swan: No worries. And we've got to look after each other during this time. So that's important. A couple questions from me, and thanks for the time. On the topic of vaccines, Andy, would there be any consideration to any sort of mandate to making your retail workers in particular vaccinated? You were also the first to, or among the first to push some of your staff to work from home and work remotely. Will there be any sort of permanent shift there?

And one more; I just wanted to ask about consumer phone plans, if prices will need to continue to rise at all with 5G investment ramping up, any sort of update just in terms of consumer pricing when it comes to mobile?

Andrew Penn: Thanks so much, Dave. Look, on the vaccine point, I'll make a few comments maybe. Firstly, I'm absolutely pro-vaccine. Vaccines for all sorts of conditions and illnesses and diseases have been a fundamental part of making our society that we live in today a healthier and safer society. Whether it's typhoid, whether it's cholera, whether it's polio, whether it's tetanus, whatever it may be, they've been a fundamental part of the healthcare of the modern society. And so I am absolutely pro-vaccine.

Ultimately, I don't think you can force people to have a vaccine, because obviously, everybody's got their own individual health circumstances. And so that's important that people have the opportunity to get their own health advice, and understand what it means in their particular situation. Having said that, there is no doubt that certain people fulfill certain roles where they come in contact with lots and lots of other people. It may be people in stores, it may be people like our field techs who are out there in the field, or going into homes. And it's really important. We need to think very carefully about their safety, and the safety of our customers.

And I can certainly see that certain roles should require a vaccine. But I think as you also know there's quite a bit of complexity involved in that. And you should assume that we're considering that very carefully. But any decisions that we do make in that regard, I'll certainly be sharing with our people first. So that's on vaccines.

On working from home, my philosophy on this is been very much we came into this with a philosophical view about supporting flexibility to support diversity in our workforce. And even pre-COVID, on average our people would have worked from home one and a half to two days a week, pre-COVID. And so that made us able to move to the restrictions we're seeing today, relatively seamlessly.

I do think that we will see flexibility being an increasingly important part of a successful company in the future. And I think the companies that will be the most successful will be those that can enable their people to work from where they want, when they want, how they want. And in fact, indeed, even their

customers to engage with you where they want, how they want, and when they want, as well. And so that is the business model that we're building for the future.

We are embracing, working virtually, and working in a hybrid way. Even to the point we announced actually, we're just now moving to location agnostic contracts. In other words, what that means, in simple terms, is you know that old letter of employment you used to get, one of the clauses in the labour employment said, "Your normal place of work is X, Y, Z". We are taking that clause out of our contract.

And ultimately, the only real constraint for us is we need to have the administrative capability to employ and to pay somebody in the location in which they want to work. So for example, there's certain countries around the world we don't actually have the administrative capability to do that. But essentially, we do have people who live overseas and full time support our business in Australia, not because they're working in an office there necessarily, we obviously have resources on the ground, but because they choose to do so. So we're very much an advocate for new ways of working. And that's been an important feature of our strategy. We now have 17,000 people working in agile, just as an example.

Look just finally, on consumer phone plans, I won't comment on pricing, I'm afraid, because that would be, governance wouldn't allow me to do that. But needless to say, it's a really competitive market. We continue to invest heavily in 5G, we're already at 75% pop coverage. We are now also really focusing on densification. The millimetre wave spectrum will help that, that gives us 10 times more spectrum capacity that we can target to hotspots. And millimetre wave spectrum handsets are starting to become more available. And as that happens, we'll be able to really supplement our network there.

So we still do think that there is an important leadership and differentiation across the different networks, and Telstra's is clearly by far the best and the biggest. And that's how we intend to continue to compete. Thanks Dave.

Nicole McKechnie: Thanks David. OK, moving on to Lucas Baird at the AFR. Hi Lucas.

Lucas Baird: Hey guys, how are you going? Just to follow up on David's question, I guess, I mean the ACCC has been making some noise about not being very happy with the way mobile prices are trending post TPG/Voda merger. I mean, do you see any sort of adverse action from them, whatever form it may take? Could that impact your projections for mobile ARPU and stuff like that going forward?

And then just on the buyback. I think you said in your statement that you may investigate some other forms of returns if required. I'm just wondering what would trigger such action like that, and what another form of return would look like?

And then there's also been a lot of talk today about the growth areas in energy, e-health, venture capital. Andy, can you see a future where Telstra is primarily

one of them, and just a telco on the side? Or is that just too far a leap to make?

Andrew Penn: Thank you very much Lucas. Look, on your comment regarding the ACCC's comments on mobile pricing, for the same reason I mentioned it today, I want to make sure that I'm not saying anything that I shouldn't from a governance point of view. So I won't comment on pricing per se.

The only thing I would say, though, is if you look at mobile ARPUs and mobile service revenues across the industry, ARPUs have basically been declining since about 2015. Pretty much 2015, 2016 we've seen essentially the ARPU coming down, and not just at Telstra, I mean, at an industry level, mobile services revenue coming down at an industry level. And at the same time, data allowances have been going up dramatically. I mean, to the point where most of our plans have plans where essentially, there is no excess data charges.

And so in terms of the value to the customer, the value to the customer has gone up dramatically over that period of time. We are in a period now where we're investing heavily in 5G. And ultimately, as a telco, all telcos have to achieve a return on invested capital. And so we've seen ARPU increase in the last six to nine months or so. But that's off the back of a period of four or five years of ARPU decline, candidly. So that's the comment I would make there.

On the buyback, it is absolutely our intention to do the buyback once the transaction is completed and we've received the proceeds on the basis of an on-market share buyback. The other options that you do have available to you are an off-market share buyback, and/or a special dividend is another way you can do a capital return. A capital return is a bit more complex and requires a bit more, there's a bit more involved in, so you need it to be of a significant scale to make that worthwhile. I think the advice to us was that \$1.3 billion is a big buyback, but still, nonetheless, maybe not worth doing a capital reduction on that basis.

And then off-markets and special dividends are probably slightly more attractive when you've got excess franking credits, and we don't have excess franking credits, because we pay out a high proportion of our earnings. And so therefore, our franking balance isn't really big enough to support being able to do that in a fully franked basis. So that's hence why an on-market¹ buyback is the preferred route.

And then finally, on your question on Health and Energy, I mean, I'd love to think that that could be the case. Last year, our revenue was \$23.1 billion. Obviously overwhelmingly, that came from telecommunications. And so our Health and Energy businesses and Telstra Ventures, they are really important and exciting opportunities to add growth, and add extra value, growth and value as well, to the company. But I don't see them being the bigger part of our business for certainly at least, for my foreseeable future.

Nicole McKechnie: OK, thanks very much for that, Lucas. Moving on to John Dagge from the

¹ verbatim "off-market"

Herald Sun. Hi, John.

John Dagge: Good morning. Hi, Andy. And thanks for your time. I just had one on Telstra's approach to vaccines as well. And I was wondering, (a) has the company received, or is it asking for some legal advice on this? And then (b) would it like some more guidance from government here? I mean, they've obviously, I think, singled out aged care. But if you guys come to a conclusion that higher risk roles, say as you've mentioned, a technician going into people's homes, potentially visiting numerous homes, would you like government to perhaps make it more clearer that you'd be able to require a vaccine for that role, if indeed, that's the decision Telstra came to?

Andrew Penn: Yeah, thanks, John. I mean, I think the first and the simple answer to your question is, are we getting legal advice? We obviously have quite a significant legal team, ourselves. But we're certainly looking at the legal aspects of all of this, as you can imagine we would. And there's several of them. For example, there's privacy considerations, and your ability, can you ask an employee whether they have been vaccinated or not? And then can you insist on knowing the answer to that question, so there's a privacy element to it, there's a liability element to it. And so there are quite a lot of complexities.

We are with the BCA, Business Council of Australia, we've been to numerous briefings with government at both the state and the federal level, including with General Frewen, who's the leading the Vaccination Task Force for the Prime Minister. And so we've had good access there. And so there's some good dialogue. I don't think it's simple for anybody just to say, "Well, it's this or it's this." There's a very detailed legal framework out there and lots of different considerations, and we're working through them right now.

But as I say, I'd bring it back up and state that nonetheless we are, I am, absolutely pro-vaccine for the reasons I mentioned earlier. You can't, ultimately, you can't force somebody to have a vaccine, and you shouldn't be able to, because they need to be the people that can take into account their own health and medical situation. And I legitimately accept that that's obviously an important consideration. But there are people that are in roles that come into touch with lots of other people. And so the crucial issue is in those circumstances, how do we make sure we protect both them, and protect both our customers? And that's what we're really very much looking through and looking at, at the moment. And that includes getting legal, a legal understanding of that, and engaging with government in consultation on that as well.

Nicole McKechnie: Thanks very much, John. I think that is our last question. I think we did lose Evita, and that was the problem earlier. It looks like there are no further questions, so we might leave it there. Thanks, everyone, for coming along today and have a great day, cheers.

Andrew Penn: Thanks everyone for coming in. Thank you.