# Macquarie conference
5 May 2021

Vicki Brady – Chief Financial Officer

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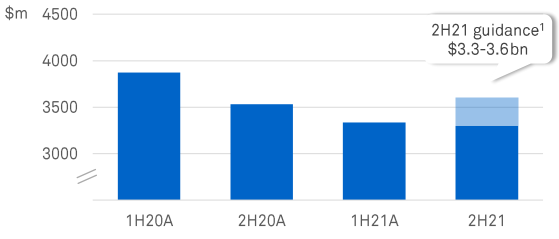
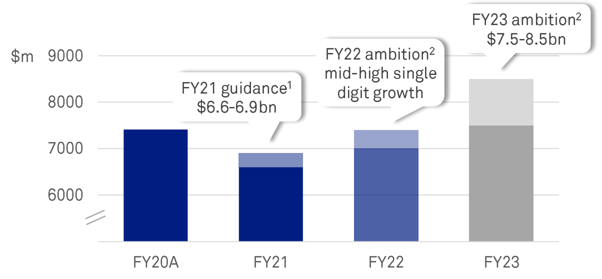
## Underlying EBITDA growth ambition

### Underlying EBITDA - halves




### Underlying EBITDA – full year




1. This guidance assumes no impairments in and to investments or non-current tangible and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum, and excludes the impacts of Pitt St exchange sale and leaseback. The guidance is based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance.
2. While we do not provide financial guidance beyond the current financial year, our Board and management team understands the importance of achieving EBITDA in this range and the actions required to deliver it. Telstra's ambition for its Underlying EBITDA in FY22 and FY23 is not guidance and there are greater risks and uncertainties in connection with this ambition.

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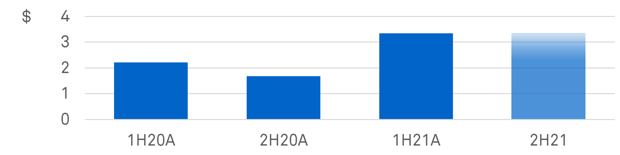
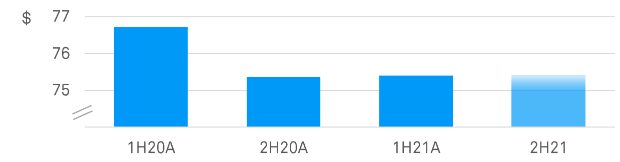
# Underlying EBITDA growth drivers

**TMMC growth on PCP in postpaid handheld mass market branded**



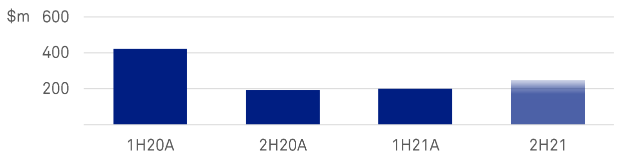

- 1H21 TMMC +$3 growth on PCP
- 2H21 TMMC expected +$3 growth on PCP
- Postpaid handheld ARPU expected to return to growth in 2H21

**C&SB fixed bundle and standalone data ARPU**




- 1H21 ARPU stable sequentially
- 2H21 ARPU expected to be stable due to focus on building value

**Underlying fixed cost out on PCP**




- 1H21 cost out $201m
- 2H21 cost out expected ~$250m
- Cost out target increased to $2.7bn by FY22 with opportunity beyond

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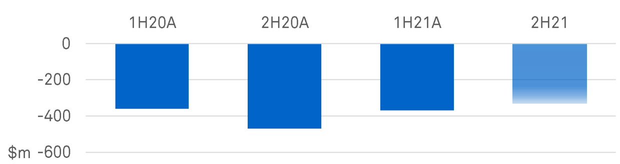
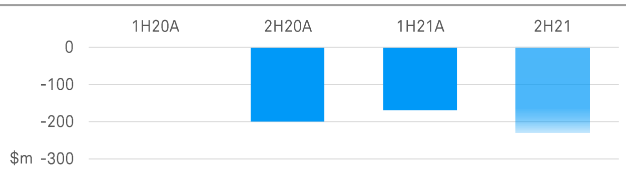
# Underlying EBITDA – reducing headwinds

**In-year nbn headwind[1]**




- In-year nbn headwind reducing from 2H20 peak
- FY22 in-year nbn headwind expected to reduce further

**Estimated COVID impact[2]**




- 1H21 estimated COVID impact ~$170m
- 2H21 expected ~$230m
- Expected to largely to reverse over time

1.Refer to definition set out on the slide "Glossary" lodged with the ASX on 11 February 2021.
2.COVID impact in FY21 includes estimates across international roaming declines, delayed cost-out, customer support and deferred NAS professional services.

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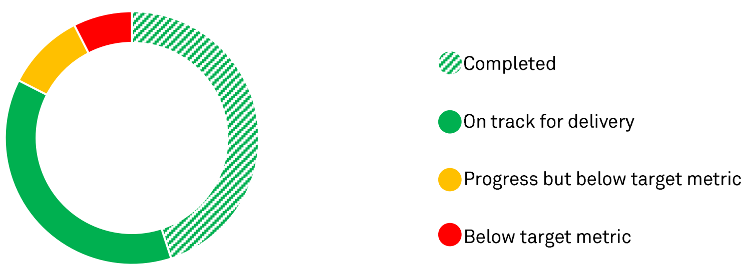
# T22 – Progress

## T22 Scorecard metrics – as at 1H21




**>80% metrics now completed or on track for delivery**

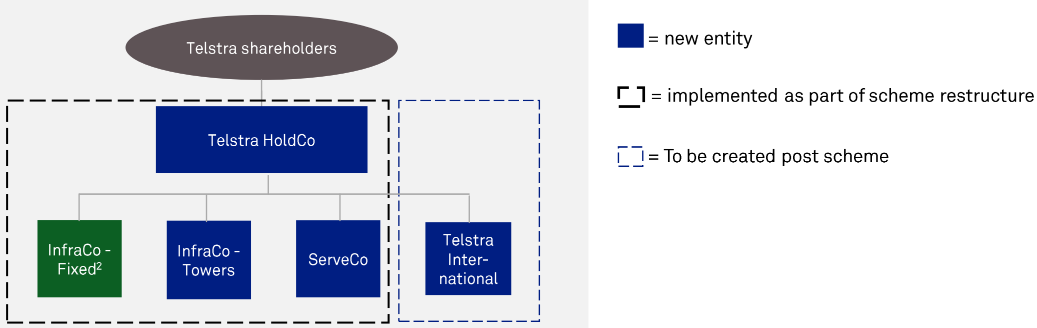




# T22 – Proposed simplified corporate legal structure

## T22 | Pillar Two - Telstra InfraCo

Proposed simplified corporate legal structure[1]




1. Any restructure will involve certain regulatory and other requirements. There may be delays in implementing parts of the program, or they may not be implemented at all if approvals not obtained.
2. It is intended that InfraCo Fixed will be the current Telstra Corporation Limited entity. The assets of InfraCo Towers and ServeCo, and in due course, of International, will be transferred out of the current Telstra Corporation Limited entity into their new respective legal entities.

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# Disclaimer

These presentations include certain forward-looking statements. The forward-looking statements are based on certain assumptions and information known by Telstra as at the date of these presentations.

The forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Telstra, which may cause Telstra's actual results, performance and achievements to differ materially from those expressed in, or implied by, the forward-looking statements including general economic conditions in Australia; exchange rates; competition in the markets in which Telstra will operate; the inherent regulatory risks in the businesses of Telstra; the substantial technological changes taking place in the telecommunications industry; the ongoing impacts of the COVID-19 pandemic; and the continuing growth in the data, internet, mobile and other telecommunications markets where Telstra will operate. A number of these risks, uncertainties and other factors are described in the "Chairman & CEO Message", "Our material risks" and "Outlook" sections of our Operating and Financial Review (OFR). The OFR is set out in Telstra's financial results for the year ended 30 June 2020 and in our 2020 Annual Report which were lodged with the ASX on 13 August 2020 and 28 August 2020 (respectively) and are available on Telstra's Investor Centre website www.telstra.com/investor.

In addition, there are particular risks and uncertainties in connection with the implementation of the Telstra2022 strategy (T22), including the response of customers to changes in products; the risks of disruption from changes to the organisation structure; that detailed business plans have not been developed for the entirety of the strategy and the full scope and cost of T22 may vary as plans are developed and third parties engaged; Telstra's ability to execute and manage T22 in a sequenced, controlled and effective manner and in accordance with the relevant project and business plan (once developed); and Telstra's ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the plan.

Telstra does not provide financial guidance beyond the current financial year. Telstra's ambition for its Underlying EBITDA in FY22 and FY23 is not guidance and there are greater risks and uncertainties in connection with this ambition. The indicators provided in this presentation, including across Mobile, Fixed, Data & connectivity, NAS, Other and Productivity, are not guidance and is provided to illustrate some of the outcomes which management is currently focused on delivering as part of this ambition across the short to medium term. Each item and action subject to a range of assumptions and contingencies, including the actions of third parties. As with the implementation of T22, associated detailed business plans have not be developed in their entirety and the full scope and cost may vary as plans are developed and third parties engaged. Telstra's ability to realise these ambitions will also depend on Telstra's ability to execute in accordance with the associated business plans (once developed).

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In terms of the information provided in these presentations relating to the proposed restructure of the Telstra Group, any restructure is a complex process and we will need to navigate a range of existing commercial, regulatory, operational and other requirements. There may be delays in implementing some parts of the program, or they may not be implemented at all.

The assumptions underlying and the basis upon which we have provided our FY21 earnings guidance is set out on slide "FY21 guidance (Updated)" lodged with the ASX on 11 February 2021. Defined terms are set out on the slide "Glossary" lodged with the ASX on 11 February 2021.

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All forward-looking figures and proforma statements in these presentations are unaudited and based on A-IFRS unless otherwise indicated. Certain figures may be subject to rounding differences.

All market share information in these presentations is based on management estimates having regard to internally available information unless otherwise indicated.

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**CFO SPEECH NOTES - FINAL**

**MACQUARIE CONFERENCE**

**5 MAY 2021**

**VICKI BRADY – CFO**

**Slide 1 – Vicki Brady**

Good afternoon everyone and thank you for joining.

I'd like to begin by recognising that I am joining you from the land of the Gadigal people of the Eora nation. I acknowledge their ancient and ongoing connection to this land and their culture. And I welcome any Aboriginal and Torres Straight Islanders joining us today.

This afternoon I will make some introductory remarks and take you through why 2021 is a significant year for Telstra. 2021 represents a turning point for the company in our T22 journey.

For the last four years, every year, we have had to face the confronting challenge of the financial headwinds which arise from the transfer of a material part of our business to the NBN. This has meant that we have started each of the last four years with our EBITDA going backwards by up to $800 million.

This has been occurring in a market where competition has led to material reductions in both fixed and mobile ARPUs, as well as technology disruption and significant structural change across the industry.

In many ways it was these dynamics that provoked our T22 strategy that we announced almost three years ago. It was also these dynamics, in conjunction with a conviction about how technology innovation was going to continue to accelerate, that led us to understand that we needed to radically transform.

We are substantially through the T22 program and it is delivering significant benefits leading to our financial turnaround.

T22 has seen us invest in technology, digitisation and networks, deliver improved customer experience and be disciplined in our capital management. This now puts Telstra in a strong position to grow.

The strategies that we have been deploying are paying off. We are performing well in the market and we can clearly see the path to underlying growth.

That is why I say 2021 is a significant year for Telstra.

We also continue to progress our proposed legal corporate restructure, which we announced in March, and we remain on track with the monetisation of towers.

Let me now expand further on the financial turning point we are at.

**Slide 2 – Underlying EBITDA growth ambition**

The left-hand side of this slide shows the evolution of Underlying EBITDA over the last several halves.

In the first half of FY21 we reported Underlying EBITDA of $3.3 billion. We also announced guidance for the second half of $3.3 – 3.6 billion.

The turning point is also illustrated by our ambitions for FY22 and FY23. The chart on the right shows the evolution of our full year Underlying EBITDA including guidance for FY21 and the ambition for mid to high single digit growth in FY22 and to be in the range of $7.5 – 8.5 billion in FY23.

The figures for FY22 and FY23 are not guidance – they are aspirations or ambitions so there are greater risks and uncertainties associated with them compared to our guidance statements.

Nonetheless the charts clearly demonstrate why I say we are at a turning point.

This $7.5 – 8.5 billion range is important to support a 16c dividend inside our dividend payout ratio and deliver a ROIC of around 8%. We estimate that towards the bottom end of this range equates to a ROIC of around 8% in FY23.

**Slide 3 – Underlying EBITDA growth drivers**

I now want to comment on what sits behind our financial ambitions and draw out some of the operating metrics we have been focused on improving.

The first is postpaid handheld Transacting Minimum Monthly Commitment, or TMMC, which is the leading indicator for mobile ARPU. Pleasingly, TMMC continued the positive momentum we have seen since 2019 and was up by more than $3 in 1H21 vs PCP. We expect a similar increase in 2H vs PCP.

The $5 increase in TMMC across FY20 and FY21, as well as pricing changes to the base, are flowing through into ARPU. In prior periods ARPU has had a negative drag from pricing trends. This turned positive in 1H21 and we are confident this will flow through even more strongly in 2H21.

We are confident therefore that mobile ARPU has also reached a turning point and will return to growth in the second half of FY21.

Our mobile business is clearly building positive momentum. We have strong 5G leadership and differentiation; we have a higher proportion of customers choosing plans of $65 or higher; digital engagement is increasing; two thirds of mass market postpaid customers are on in-market plans; our loyalty program continues to scale; and we see value accretion across our multiple brands.

These factors give us confidence that mobile EBITDA will grow again sequentially in 2H21. We also expect full year FY21 growth on a PCP basis, and then further growth that will support our FY22 and FY23 financial ambitions.

Secondly, Consumer & Small Business fixed bundle ARPUs stabilised in the first half of this financial year as we hit a turning point thanks to customer migrations to in-market plans no longer being dilutive.

We are focused on building value and achieving mid-teens NBN resale EBITDA margins by FY23. This is through a combination of initiatives targeting improvements in gross margin, such as speed tier mix and add on services, along with cost-to-serve reductions and delivery of productivity.

Thirdly, we have continued to make strong progress against our productivity target, reducing underlying fixed costs by $201 million during the first half with another approximately $250 million expected in the second half and a further $450 million in FY22.

As at 1H21, we had achieved a $2 billion net reduction in underlying fixed costs since 2016. Based on our strong progress to date and outlook, we lifted our net productivity target in February from $2.5 billion to $2.7 billion by the end of FY22.

Further reductions in FY22 are expected to be delivered from IT and Network Infrastructure costs, realisation of benefits from digitisation including product simplification, and customer self-service tools, as well as ongoing labour efficiencies.

**Slide 4 – Underlying EBITDA – reducing headwinds**

At the same time as key underlying operating metrics are improving, the major headwinds we have been facing from the migration of customers to the NBN are coming to an end.

The in-year NBN headwinds peaked in the second half of the last financial year, reduced in the first half of this financial year and will be substantially less in FY22.

We also expect COVID impacts to reverse over time. After an estimated $200 million impact in FY20, we expect a $400 million impact in FY21.

Our estimate for COVID-19 is based on international roaming declines, delayed cost-out, additional customer support and deferred NAS professional services.

So this is why I am optimistic we are at a turning point financially.

**Slide 5 –T22 – progress**

Let me turn back to this year and comment on our progress with our T22 strategy and initiatives.

At our first half results, we were on track to deliver more than 80% of our T22 scorecard metrics. Today, I will speak to five areas within our T22 strategy. Further detail on our T22 strategy is available in our FY21 half year results announcement materials.

**First, on simplification and digitisation.** As at the first half, we had more than 7.6 million services on our simplified 20 Consumer and Small Business in-market plans. We also had 2.8 million members signed up to our loyalty program, Telstra Plus, with strong customer engagement.

For Consumer and Small Business customers, digital sales interactions were up 10 percentage points to 40 per cent compared to FY20, which was already up strongly on the previous year.

Overall digital service interactions accounted for more than 70 per cent of all service interactions.

Under T22, our aspiration had been to reduce the number of calls to our call centres by two thirds by FY22. With the acceleration to digital we are already at this run rate, more than a year before the end of the strategy.

That means that over time we will need smaller call centres for these customers and more will work from home. We are on track to have all in-bound calls from our Consumer and Small Business customers answered in Australia within the next 18 months.

**Second, on our leading cost reduction program.** With the progress we have made on simplification and digitisation, our workforce continues to change significantly. Since June 2018, when we launched T22, we have reduced 22,000 roles including 6,000 from our direct workforce and 16,000 from our indirect workforce.

At the same time, we have recruited more than our planned 1,500 new roles with skills in new areas such as software engineering, data analytics and cyber security.

Subject to appropriate consultations, by June we expect to be more than 90 percent through our T22 target, to reduce our direct workforce by 8,000 net roles, and to have completed it by the end of the calendar year.

**Third, on monetisation of assets.** We have now exceeded our target of monetising up to $2 billion of assets to further strengthen our balance sheet.

**Fourth, on network leadership.** On 5G we are not just leading in Australia but we are also among the leaders globally.

Telstra's 5G technology now covers almost two-thirds of the Australian population and is on track to reach 75 percent by the end of June 2021.

There are now more than 3,200 Telstra 5G sites on-air in more than 160 cities and towns, and 5G coverage is available in more than 2,450 suburbs across the country.

We were also successful in acquiring 1000 Mhz of mmWave spectrum at the recently completed 26 Ghz spectrum auction. This spectrum will help build on Telstra's leadership in 5G now and into the future.

**Slide 6 – T22 Proposed corporate legal restructure**

**And last, on Telstra InfraCo.** We have made continued progress in the establishment of InfraCo. InfraCo is a fully operational business function with separate accountabilities and reporting.

We announced in March the process to enable a legal restructure, including:

- First, the establishment of a new holding company for the Telstra Group.
- Second, the creation of separate subsidiaries including InfraCo Fixed, InfraCo Towers, ServeCo and Telstra International, and transferring the relevant assets into InfraCo Towers and ServeCo.
- And finally, it is proposed that the establishment of the new holding company and the transfer of the relevant assets into ServeCo be undertaken by way of schemes of arrangement, and Telstra intends to seek shareholder approval of these schemes.

It remains our intention to complete the restructure around the end of this calendar year.

On towers, as outlined at our November Investor Day, once established InfraCo Towers will own and operate the largest mobile tower network in Australia.

We have been conducting detailed due diligence and preparing documentation to support launching the monetisation process with potential investors in the third quarter of 2021, and binding offers to be submitted in the fourth quarter.

**SLIDE 7 - Summary**

To conclude, 2021 is an inflection point for the financial performance of our business.

Our 1H21 underlying results remained challenged, including from ongoing nbn headwinds, legacy declines, and financial impacts of the COVID-19 pandemic.

However, our continued focus on T22 is delivering simpler, better outcomes for our customers and greater productivity, enabling us to increase our cost-out targets.

Product margin improvement is also imminent, and already occurring in mobile.

We see clear positive indicators of an improved financial trajectory, which we expect will return us to underlying EBITDA growth in FY22, and put us on the path to achieving our FY23 financial ambitions.

I said in my opening, 2021 is a significant year for Telstra. We have more to do, but we have reached an important turning point financially and we look to the rest of the year with great confidence in our ability to deliver our strategic ambitions.

Thank you and I will now hand over to Darren to take us through Q&A.

[END]