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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Full Year 2019 Financial Results – analyst briefing

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Full Year 2019 Financial Results analyst briefing, for release to the market.

Yours faithfully

Sue Laver
Company Secretary

Start of recorded material at 09:15:00]

Ross Moffat: Good morning. My name is Ross Moffat, Head of Investor Relations at Telstra. Welcome to our 2019 Full Year Results presentation. Before we commence on behalf of Telstra I'd like to acknowledge and pay my respects to the Wurundjeri and Boonwurrung people of the Kulin Nation, the traditional custodians of the land we're meeting on, and I pay my respects to Elders past and present. After presentations our CEO, Andy Penn, and CFO, Vicki Brady, will take questions from investors and analysts on the phone. And with that I'll hand over to you Andy.

Andrew Penn: Well thank you very much Ross, and good morning and welcome to Telstra's Results announcement for the financial year ended 30 June 2019. 2019 has been a pivotal year for Telstra, notwithstanding the intense competition and the challenging structural dynamics in our industry. It is a year in which I believe we are starting to see the turning point in the fortunes of the company from the changes that we are embracing.

2019 was the year in which we completed the strategic investment program that we announced in 2016 to create the networks for the future and to digitise our business. Whilst we will obviously continue to make investments, we are now doing so through our business as usual parameters, and we have reduced our capex to sales ratio to below 14% for 2020.

2019 was the year in which as an industry we passed the halfway mark in the migration to the nbn. We estimate that we have now absorbed around 50%, or \$1.7 billion on an annualised basis since FY16 of the economic headwind from the nbn with more than 60% of homes in Australia now connected.

2019 was the year in which we commenced our T22 strategy to radically simplify our products and services, improve the digital experience for our customers, establish Telstra InfraCo as a separate business unit, simplify how we work, reduce our cost base, and improve our portfolio management. We have made very significant progress in this program, and I will cover this shortly.

2019 was also the year in which we again demonstrated our clear network leadership by being the first operator in Australia and among the first in the world to launch 5G, the next generation of mobile telecommunications technology. 5G is clearly going to be an important platform for our growth in the future.

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

Let me then turn to the results highlights and a summary of our progress, before handing over to Vicki who will take you through more detail of the financials. We will then both be ready to take some questions from you.

Total income for the year decreased 3.6% to \$27.8 billion on a reported basis. On a guidance basis the total income decreased 2.6%. EBITDA decreased 21.7% to \$8 billion on a reported basis. Underlying EBITDA which excludes one-off nbn

income, restructuring costs and impairments, decreased 11.2% to \$7.8 billion. The estimated nbn headwind that we absorbed in 2019 was approximately \$600 million. Excluding this, EBITDA decreased approximately 4%. After accounting for significant restructuring costs of approximately \$800 million and asset impairments of approximately \$500 million, net profit after tax decreased 39.6% to \$2.1 billion. The Board is resolved to pay a fully franked dividend of eight cents per share. This takes the total dividend for the year to 16 cents per share, comprising a 10 cent ordinary dividend, and a six cent special dividend.

Our circumstances today are very different from that which they were before the nbn. We are no longer the national wholesale provider. That part of our business, the revenue and the value and the customers, is progressively being transferred back to the government via the nbn. Vicki will spend some time taking you through the current view of the impact of this on Telstra. But I want to make two points on comments that often come up in relation to the commercial agreements that we have with nbn.

Firstly, the notion that the payments we receive for nbnCo for access to our network somehow leave us better off or give us an advantage. This is clearly not the case, as you can see from our Financial Results today. The second point is the claim that the payments to Telstra are the reason why nbnCo's wholesale prices are so high. In fact it is completely the opposite. These payments to Telstra have actually helped keep the cost of the nbn down, without access to our very extensive network, all of the exchanges, fibre, ducts, pits and pipes, nbn would have had to have built all of this infrastructure from scratch at a much higher cost and a much longer build.

But we are reaching an inflection. Whilst 2019 underlying EBITDA excluding nbn headwind declined by around 4%, we estimate that it will grow by up to \$500 million in 2020, and Vicki will provide more detail on our 2020 guidance in her presentation.

This turnaround is a result of our focus on building value and growth through the many initiatives under our T22 program as demonstrated in our operating highlights. Postpaid handheld mobile revenue was up 1.2%, while services revenue was down 1.6%. Our mobile business performed very well compared to industry, where overall we saw pressure on our ARPU's and service revenues. In fixed we are capturing more value with price increases, reducing the negative ARPU impact from customers re-contracting onto the nbn.

Our Internet of Things business exceeded industry growth rates, with revenue up 19.4%, and during the year we introduced new IOT products including Telstra Locator in May, Telstra IOT Sim Manager and One SIM in March, and a commercial vehicle product, our digital water metering product in June.

Our NAS business performed strongly in the second half, with an EBITDA margin of 15.5% after a soft performance in the first half. This puts us back on track to deliver long term NAS margins in the mid teens as we have previously promised.

We also achieved improvement in the performance of our International business with global connectivity EBITDA up 7.5% on a constant currency basis.

Encouragingly our health business also achieved strong growth, with revenues up 36% and EBITDA improving by 49%. Our Health business is performing extremely well, and it is expected to hit break-even during 2020, and is strategically very well positioned in what is a growing market.

Turning then to customer experience. I am pleased to report that the investments that we have been making and the initiatives under our T22 strategy are having a positive impact for our customers. Episode NPS improved six points over the year, while strategic NPS improve three points. We were also pleased to see that TIO level one complaints reduced 20% compared to the prior year. This improved customer experience and our simplified product offerings contributed to growth in customer numbers.

Through our multi-brand strategy we added 378,000 net retail postpaid mobile services during the year. This included 197,000 from our branded channel, and 181,000 from Belong. We estimate that we took almost 60% market share in postpaid industry net adds in the last quarter alone. We also added 230,000 wholesale MVNO mobile prepaid and postpaid services in the year, bringing total wholesale services for the company to more than 1.2 million.

In fixed we added 107,000 net new retail bundle and data services, including 56,000 from the main brand, and 51,000 from Belong. Belong now has over 400,000 services, with almost 250,000 mobile services, and over 175,000 fixed services. In the year we added 659,000 new nbn connections, with an estimated nbn market share excluding satellite of 49% total nbn connections from Telstra now exceed 2.6 million.

Turning to costs. We achieved our underlying fixed cost reduction target with underlying fixed costs down 6% or \$456 million. This brings our annualised cost reductions achieved since the program began in 2016 to \$1.17 billion, and we remain on track to achieve our long-term target by FY22 of \$2.5 billion. Cost out drivers have included simplification and digitisation, and this has led to reductions in direct and indirect labour as well as non-labour related expenses.

In June of last year as the impacts of the nbn and competition became more profound, we recognised that we needed to do even more in response to the market dynamics. We needed to accelerate the rate of our change. We needed to lift the level of our aspiration, and we needed to be more aggressive in leaving our legacy behind. That is why we launched T22. It's about simplifying the business and reducing our cost base for the future. It's about maximising the value of our infrastructure assets. It's about positioning us for the 2020s and beyond, and taking advantage of the significant opportunities coming around the corner from growing demand, technology change and the arrival of 5G.

The strategy is built around four key pillars and two critical enablers, building the networks for the future and digitisation. We have made a very strong start, so let me cover some of the highlights, starting with Pillar 1, to radically simplify our product offerings, eliminate customer pain points, and create all digital experiences. We have completely overhauled and simplified our product range. We have reduced more than 1,800 Consumer and Small Business plans to just 20, creating simpler, more flexible ways for customers to choose the best value

connectivity, devices and services for them.

During the year Telstra became the first major telecommunications company in Australia to introduce no lock-in plans across both fixed and mobile. We also launched build your own mobile plans to give our customers freedom and flexibility. Pain points such as excess data charges are now a thing of the past across all of our new mobile plans, and already more than 820,000 customers are enjoying the freedom and peace of mind that this brings.

In October of last year we launched the next generation of our smart modem, a technology that includes a 4G chipset which now enables both voice as well as data backup. Already 1.3 million customers are using the smart modem.

One of the most pleasing measures of the real progress we've made during the year to improve the experience for our customers was a 22% reduction in the volume of calls to our call centres from Consumer and Small Business customers. In fact, since 2016 we have reduced the number of calls coming into our call centres on an annual basis by more than 15 million to less than 30 million. We have significantly improved our online experience, including refreshing the Telstra 24/7 app, making it simpler for our customers to self-manage their services.

Our digital experience now accounts for more than 53% of service transactions, including account management, prepaid product and billing related inquiries. At the same time we have also achieved an increase in the number of digital sales interactions for Consumer and Small Business customers, which more than doubled during the year to 16.8%.

The message is clear. Our customers increasingly prefer to use digital channels to interact with us, and this creates great opportunities for us to deliver a better experience for our customers more efficiently for Telstra. As well as flexibility, simplicity and choice, our customers also told us that they wanted to be recognised and rewarded for their loyalty. During the year we introduced Telstra Plus, a program offering customers the opportunity to earn rewards, discounts on new technology, as well as bonus entertainment and much more. Already we have more than 770,000 customers enrolled in the loyalty program Telstra Plus since it launched in April 2019.

Our support for small business customers also underwent a major revamp. As well as no lock-in and no excess data charges on our new mobile and tablet plans, we launched a host of more dedicated support services for small business customers. This includes account management for all small businesses through a 24/7 Tech Support Service, where we have trained thousands of dedicated small business specialists. It also includes new Technology Business Centres for small business, a premium channel for businesses with more complex needs.

The drive to have fewer better products and services also extends to our Enterprise customers, with the number of active Enterprise plans cut by 21% as we continue to remove and unravel complexity. Connected Workplace was launched to select Enterprise customers in December. It offers a simple streamlined way for our mid-market business customers to get all of the communications data and

connectivity solutions that they need at a fixed per user price on a per month basis. Call volumes from Enterprise customers also reduced during the year, down 8%, reflecting these improved digital experiences.

Turning now to Pillar 2, Telstra InfraCo. Telstra InfraCo is now fully operational as a standalone infrastructure business run by Brendon Riley. Master SLAs have been established, and we are reporting InfraCo separately in our annual accounts, so that you can get greater visibility of the performance and the value of our infrastructure assets. Telstra InfraCo has a book value of assets of around \$11 billion, and is responsible for key network assets including data centres and exchanges, most of our fibre, the residual copper and HFC networks not transferred to the nbn, international subsea cables, poles, ducts and pipes.

The third pillar of our T22 strategy is focused on simplifying our structure and ways of working to empower our people to serve our customers. A critical part of delivering our T22 strategy is re-engineering Telstra for the future. It's changing the way in which we work to allow our people to collaborate more easily so that they can deliver better and faster outcomes for our customers. This has meant an ongoing and unrelenting focus on removing hierarchies and silos, and redesigning our organisation from the ground up.

We have already removed on average three layers of management across the organisation. The changes have meant that around 6,000 or 75% of the 8,000 direct workforce role reductions have already been announced. Almost 5,000 have left the company. We've also reduced indirect headcount by approximately 6,000 during the year. While difficult, these changes are about adapting the business to a rapidly changing market, and the transfer of a substantial part of our business to nbn, a company of course which did not exist previously. To support those affected therefore, we are investing up to \$50 million in a transition program that provides a range of additional services to help people move into a new role.

As well as changing how we are structured, we are also changing how we work. We have adopted agile at scale, enabling us to deliver products and services faster, more easily, to the changing needs of our customers. Under this program of work we're also building the capabilities we will need for the future, creating 1,500 new roles in new areas such as cyber security, software engineering, data and analytics, and AI.

The fourth and final pillar of our strategy is to deliver an industry leading cost reduction program and portfolio management. We have accelerated the cost program in the second half of 2019 and into 2020, and we remain on track to reach our target of reducing annualised underlying fixed costs by \$2.5 billion by 2022. We have already delivered \$1.17 billion and with an acceleration we are targeting a further reduction in fixed costs of \$660 million in 2020.

The other aspect of Pillar 4 is focused on actively managing our portfolio to monetise up to \$2 billion of assets. In this regard we have restructured Telstra Ventures releasing \$75 million. We have exited Ooyala. More recently we sold the Edison Exchange in Brisbane for \$57 million. And today we announced the sale of three international data centres for \$160 million, yielding a nine times EBITDA multiple and \$110 million gain on sale.

T22 is built on a foundation provided by our strategic investment program that we announced in 2016. We have now completed this program, having invested \$2.6 billion digitising the business and building the networks for the future. This is delivered sustainable EBITDA benefits of more than \$500 million per annum. We are now moving the ongoing initiatives and investments into business as usual, within our promised mid-term capex to sales ratio of 14%.

I can't reiterate enough that without these investments our T22 program would just not have been possible. Upgrading and digitising our CRM, our provisioning, our billing, HR and many other systems, and taking all of these to the cloud is a key enabler of the many customer experience initiatives that we are delivering. The enhanced functionality of our new Salesforce CRM system is allowing us to remove complexity for our Consumer and Small Business frontline teams, and they can now respond to customer needs and process transactions from a single console. Salesforce is also now the portal for Telstra Enterprise and our partners to manage their sales opportunities. This has helped us increase our sales pipeline by 27% over the past 12 months. Enterprise has also introduced Telstra Connect as a single digital channel for business to business customer interactions, which will bring together more than 50 active portals into just one.

At the same time that we are building our new platforms, we are also retiring many of our legacy systems. As we announced during the year, this resulted in an approximately \$500 million non-cash impairment and write down of the value of our IT legacy systems.

The investments in our network have also been crucially important and a foundation for our T22 program. It's about building the networks for the future, continuing to reinforce our network superiority, developing the next generation of software defined networks, and of course creating the platform that's enabled us to launch 5G.

I'm going to talk a little bit more about 5G at a moment, but in addition to 5G this year we've added more than 250 new mobile sites, and upgraded a further 1,200. 500 new small cells were also installed, bringing the total number of small cells in regional and rural Australia in particular to more than 200. Nationally our mobile footprint has now been extended to more than 2.5 million square kilometres. That's at least one million square kilometres more than any other mobile network in the country. Our leading mobile network footprint is why we can offer more than 3.5 million square kilometres of narrowband IOT coverage, and around three million square kilometres of Cat M1 coverage.

Service reliability and resilience remains a critical factor for our mobile customers, and a key network differentiator for Telstra. Since 2016 customer impact hours from outages have been reduced 76% as a result of our ongoing improvements. Telstra also continues to lead the market in key speed benchmarks. Independent third-party recognition for the speed and quality of our networks this year included winning P3 and systemic network surveys for Australia's best mobile operator, and the Netflix speed index for the last 18 months in a row.

However perhaps the most significant network achievement this year was

launching 5G, and putting this technology into the hands of our customers for the first time. Telstra is a global leader in development of 5G, and was the first to introduce it here in Australia. We have delivered the first 5G handsets available in the world through a number of exclusive arrangements with the major handset manufacturers. The rollout of 5G coverage is ongoing and is currently focused on CBD locations and selected regional centres where more than four million people live, work or visit every single day. We have already rolled out more than 320 5G enabled mobile base stations across the country in 10 cities nationally. We expect to increase our 5G coverage fivefold over the next 12 months, as a further 35 cities¹ and major towns are connected.

For the tens of thousands of our customers that are already using our 5G network, they are in 5G coverage almost 25% of their time, experiencing at least twice the speed of 4G, with almost half of their data usage coming from the 5G network. And we are only at the beginning, and on the first generation of handsets and chipsets. Ultimately 5G will deliver ultrafast speeds, ultralow latency, and greater bandwidth. That will transform the way we live and work by enabling all sorts of future applications and technologies, including the Internet of Things, cloud computing, big data, machine learning and artificial intelligence. All areas where we continue to build expertise and capabilities.

And of course as with 4G we believe that as 5G rolls out customers will be willing to pay more to access this new technology and the great benefits that it brings. 5G will also enable new revenue streams that do not exist today, as well as delivering capital efficiency by reducing the cost per bit of data travelling over the network.

Before I close, I would like to take you through our T22 scorecard which we use to track our progress. Importantly the scorecard represents a very strict view of our progress and is reviewed by our auditors. I want to comment on the performance against this scorecard, and also highlight in particular five new measures.

Firstly as you can see, six key T22 milestones are now complete. These include amongst other things the key measures to simplify to 20 Consumer and Small Business plans, to be 5G ready, and to ensure that Telstra InfraCo is fully operational. Of the remaining 23 measures, 13 are on track and we have made good early progress on a further three, which we show in grey as they are too early to measure.

Seven measures in our T22 scorecard are rated either amber or red, and I want to explain why now. Firstly our new technology stacks. We are very well progressed. For Enterprise the stack is live with our customers starting to experience the benefits. Mass market customers are also experiencing benefits. We are currently building our key mass market products on the new stack to enable us to migrate customers, albeit some functionality remains to be delivered.

Secondly the 24/7 app. Ironically, one of the side effects of our successful peace of mind data plans is that customers are understandably using their Telstra 24/7

¹ Verbatim “35,000”

app less frequently to check their data consumption, because they no longer need to worry about it. That's great news for customers as I mentioned earlier, and we are working on other initiatives to increase customer engagement with the app, and I'm particularly excited by the impact of the Telstra loyalty program, Telstra Plus, and the interaction this will have with our customers.

Thirdly, while we have increased average services per customer in the year, we are below where we want to be. We've therefore launched a series of campaigns late in the year to increase multi-product holdings.

For industry network surveys we lead in all of them except the ACCC fixed broadband survey. This survey and its methodology does not allow for underperforming nbn lines, which acts as a disadvantage to Telstra compared to the rest of the industry. In contrast of course we continue to lead the Netflix index which we have done for the last 18 months consecutively.

Employee engagement is critical to our ability to have both key leadership and technical talent required to deliver our T22 strategy. We set ourselves the ambitious target this year, given the changes that we were implementing, and we missed it, unfortunately. Employee engagement reduced seven points in the year. This was disappointing, and perhaps not surprising given the level of disruption. And that certainly had an impact on the results. However for the year ending June 2020 we are again setting an ambitious target to increase engagement by nine points, and we are well underway in making improvements to the employee experience and processes in decision making, getting rid of bureaucracy and approvals. Encouragingly in our monthly Pulse survey of employee engagement we have seen a four point and consistent improvement since April of this year.

As I mentioned earlier, we are also much on track in relation to our cost productivity targets, although total costs excluding restructuring costs did increase in 2019. So we have identified this metric as amber, although this was driven by handset prices and did not affect profitability. We expect total operating expenses excluding restructuring costs to decline in 2020 due to the momentum that we have achieved in our underlying cost reduction program.

Lastly, underlying ROIC. Whilst we expect growth in underlying ROIC from 2020 to 2022, we have identified this metric as amber. Firstly we do not expect growth in underlying ROIC in 2020, given that it has become the peak year in the rollout of the nbn and the economic impact that that has, and also because of changes from an accounting perspective because of AASB 16, which Vicki will explain in a moment. But at a practical level, AASB 16 reduces our ROIC just from an accounting point of view by around 1 percentage point. Given this, we are now targeting hitting 9% in 2022, which is equivalent to the existing target of 10% on a pre AASB basis. But we are indeed in addition to that committed to achieving 10% after the rollout of the nbn in 2023, and including this on an AASB 16 basis.

Which brings me to the additional five T22 measures in our scorecard, which we have chosen to give you to measure our continued success. These measures include targeting 24% of Consumer and Small Business transactions for the digital channel, 4,000 active enterprise customers on Telstra Connect, and two million

Telstra Plus loyalty members by the end of 2020. And of course as we have done today we will continue to use this scorecard in future announcements to track our execution and to provide transparency to you on our progress.

So let me summarise before I hand over to Vicki. 2019 was indeed a year in which we met our guidance, we built strong momentum behind our T22 strategy. A year in which I believe we can start to see the turning point in the fortunes of the company coming from the changes that we have been embracing. Our progress was the combined efforts of many people including our dedicated employees and management team, who are focused on serving our customers and helping us return value to our shareholders. And I would like to thank them and recognise them today.

As expected and as previously flagged, our results also reflect the current market realities, including the intense competition we see in the market and the rollout of the nbn. Whilst these factors will continue to include influence the year ahead, we are approximately halfway through the negative headwind from the nbn, and we expect the hard work of our teams to translate into underlying momentum in our business. Excluding the in-year nbn headwind we expect underlying EBITDA to grow by up to \$500 million in FY20, as Vicki will explain when she takes you through guidance.

At the same time we're also sitting at an exciting inflection point in technology, in telecommunications, and importantly for Telstra. We are only a few months away from the dawn of the 2020s. We're already at the dawn of 5G, and we have entered a period of rapid technology innovation which will provide significant opportunities for the company in the future.

T22 is about positioning us in this world as a simpler, more digitally enabled business, with the best network, the right economic model, a strong balance sheet, and the skills, capabilities, cultures, and way of working to succeed. Thank you. And with that I will hand over to Vicki before taking questions.

Vicki Brady:

Thanks Andy. It's a privilege to be here as CFO presenting our Full Year Results for the first time. This morning I will provide details on our financial performance and some insights into how our business is performing. I will take some time to walk through the impact the nbn is having on our business.

Prior to outlining our FY20 guidance, I will talk through the impact of accounting standard AASB 16, which will be implemented in FY20. I will also provide further transparency on the expected turnaround in our underlying business performance in FY20.

Turning to our results for FY19, which were in line with guidance and market expectations. On a guidance basis income was down 2.6% to \$27.8 billion. EBITDA was down 11.4% to \$9.4 billion, which was at the upper end of our guidance. Guidance excludes approximately \$1.4 billion of restructuring and impairment costs incurred in FY19, largely related to the strong momentum we have built in executing against our T22 strategy.

Underlying EBITDA declined \$979 million to \$7.8 billion. The largest reason for

this decline was the nbn, where we absorbed around \$600 million of negative recurring headwind in the period. I will talk more about this in a moment. The remaining decline of approximately \$400 million excludes these nbn impacts, and provides the clearest view of the trajectory of our business. The decline was largely in mobile and data and IP. We also reduced fixed costs at an accelerated rate during the year, and have now achieved close to 50% of our \$2.5 billion FY22 cost-out target. The \$456 million reduction achieved in-year was however not enough to change the underlying earnings trajectory.

As you can see on a reported basis EBITDA, EBIT, and NPAT were down 22, 35 and 40% respectively. Depreciation and amortisation reduced 4.2%, partly due to our ongoing review of asset lives. Finance costs were broadly flat, while tax declined on lower net profit. We have great confidence that our strategy can arrest earnings decline and create opportunities for growth. However there are remaining financial headwinds we need to navigate, and a return to growth will take time.

Let me now talk to you about the impact the nbn is having on our business. As we have previously advised we estimated at least a \$3 billion negative impact on recurring EBITDA by the end of the nbn rollout. Today we are providing you a breakdown of the component parts as shown on the slide.

First, on the positive side we received recurring EBITDA from the nbn via the ISA agreement for access to our ducts, pits, exchanges and backhaul. This is contracted for over 30 years, increases with inflation, and is expected to reach just under \$1 billion per annum by the end of the nbn migration period.

Second, the exit of our legacy access network business will result in reductions in our fixed costs. This category is made up of direct costs related to field activation and assurance activity in the fixed network. However the negative nbn headwinds across the next three areas far outweigh the positives.

As a retail provider, we now incur significant new costs in the form of AVC CVC payments to nbnCo. We also lose our legacy fixed wholesale business. Finally, the nbn rollout results in retail revenue decline at an accelerated rate in our fixed and data and IP businesses. We have assessed the declines in these businesses in the several years prior to the nbn rollout. These declines were between 3 and 5%. Post nbn rollout declines greater than these levels we have attributed to nbn.

Based on these five factors, we estimate the in-year net recurring negative headwind of the nbn was approximately \$600 million in FY19, and the cumulative headwind from FY16 to FY19 was approximately \$1.7 billion per annum. We estimate that we are around 50% of the way through the recurring financial impact of the nbn. FY20 is expected to be the peak headwind year. We estimate that the impact in FY20 will be between \$800 million and \$1 billion. These impacts are based on management's best estimates, with a key input being the 2019 nbn Corporate Plan. The ultimate impact will be determined by how the identified areas evolve. The slide also shows that we expect to receive around a further \$3 billion pre-tax, net one-off nbn receipts, through to the end of the nbn migration period.

Looking now at income by product. Our reported income declined 3.6%. This is partly due to one-off gains in the prior year, and lower one-off nbn DA and connection revenue during FY19. Excluding these one-offs, underlying income for the period declined \$572 million, or 2.2% year over year.

In terms of our major products, mobile revenue grew \$165 million in FY19. This was primarily associated with hardware, which increased \$283 million. In postpaid handheld we were pleased with our performance in market, with service revenue growth of 1.2% as positive SIO momentum offset ARPU decline.

Postpaid handheld ARPU decline of 3.1% in FY19 was caused by several factors. Firstly, \$200 million lower out-of-bundle revenue. Secondly, minimum monthly commitment, or MMC, which was flat in the first half, declined in the second half. And finally dilution from a higher mix of Belong customers. Reported ARPU decline also benefited by around one percentage point from one-offs.

Our new T22 mass market plans have improved economics, and our leading ARPU indicator, transacting MMC, is up approximately \$2 to \$3 since the launch of the new plans in June, albeit it is early days. Transacting MMC represents the average MMC excluding hardware of new and existing customers that have taken up our new plans in the period. Despite this improvement in our leading ARPU indicator, we expect postpaid ARPU declines to continue in FY20, due to a further decline of approximately \$200 million in out-of-bundle revenue, the accounting treatment for our loyalty program and new plans, and MMC decline, due to a period of intense price competition in FY19 washing through our base.

Turning to other mobile categories. In prepaid handheld we largely arrested unique user decline in FY19. However increases in competitive intensity including dramatic growth in data inclusions have impacted ARPU. We remain pleased with positive momentum in IOT, with revenue up 19%, and our Wholesale MVNO business, a crucial part of our multi-brand strategy, achieved revenue growth of 6.3%.

Now let me turn to our fixed line business, where revenue declined in line with expectations. We performed strongly in retail broadband SIOs, with net adds of 107,000, supported by first our multi-brand strategy, with Belong contributing 51,000 net adds. Second, lower churn through strong base management, including moving customers to in-market plans, bestowals of higher speeds and more data. And finally differentiated experiences, including extending the number of consumer broadband customers using a Telstra smart modem to 44%. Throughout FY19 we have continued to lift re-contracting fixed MMC. This is helping to reduce the rate of ARPU erosion.

Turning to data and IP. Revenue was down 7.7%, with IP VPN SIO growth offset by competitive pricing pressures, technology shifts, and legacy product declines, especially within ISDN. The ISDN revenue decline accelerated to negative 18% for the year, reflecting impact from the nbn, rationalisation of legacy products, and customer migrations to voice products within the NAS portfolio. Reported NAS revenue also declined due to the expected reduction in nbn commercial works. NAS revenue excluding commercial works grew 2%, and shifted to a higher quality mix of annuity revenue. We expect these trends to continue in FY20.

Turning to our operating expenses for FY19. We are delivering well against our \$2.5 billion net productivity target, and managing our total costs. Total FY19 operating costs rose 6.5%, largely due to increased restructuring associated with reshaping our workforce and asset impairments. Excluding guidance adjustments, total costs increased 2.4%. Importantly our cost growth slowed, as demonstrated by a second half increase of 1.9% versus a first half increase of 3% on a PCP basis.

The key components of our FY19 cost increases were nbn payments up \$410 million, and other sales costs up \$296 million, mostly related to mobile hardware. The increase in nbn payments was more than offset by our productivity program, which reduced underlying fixed costs by \$456 million in the period. In addition to reductions in labour costs, we have also reduced non-labour costs in a range of other areas, including 32,000 square metre, or 8% reduction in commercial property footprint. Also a 1,400, or 14% reduction in fleet vehicles. And finally a 900,000 or 19% reduction in truck rolls.

In FY20 we expect our level of fixed cost reduction to accelerate. We are targeting a further \$660 million reduction. This will take us to a cumulative total from FY16 of over \$1.8 billion by the end of FY20. In line with our T22 commitment, we also expect total operating expenses, excluding restructuring costs to decline in FY20 with reductions in underlying fixed costs offsetting increased nbn network payments and other variable costs.

Moving to EBITDA, where our results were in line with expectations. The mobile EBITDA decline of \$342 million can be explained by lower service revenue and hardware margin decline, including lease, partly offset by fixed cost reduction. We expect some of these trends to continue in FY20.

Fixed EBITDA declined by \$636 million. We achieved significant productivity improvements. This was however more than offset by over \$500 million of revenue declines in mostly high margin legacy products and growing network payments to nbn. Including one-off nbn migration costs, our retail fixed EBITDA margin was 17.9%, and we expect further pressure on margins as the migration to the nbn continues.

Turning to data and IP. Revenue pressure has flowed through to EBITDA, despite some improvement in costs. Margin is expected to be increasingly impacted by competition and resale of nbn at lower margins. NAS performed strongly in the second half, achieving EBITDA margins of 15.5%. FY19 margins declined modestly, from 10.1% to 9.5%, due to a change of revenue mix, including a decline in nbn commercial works and timing of large contracts. We expect NAS EBITDA growth in FY20, and remain committed to mid-teens NAS EBITDA margins at maturity.

In Global Connectivity EBITDA improved by \$37 million as we focused on more profitable products. We were also pleased with progress in New Business, especially Health.

Turning to free cash flow. In FY19 free cash flow was \$3.2 billion, and consistent with our guidance. The decline vs the PCP was principally due to lower EBITDA,

including restructuring costs, and increased working capital, largely due to timing of nbn receivables. This was partly offset by lower capex and tax paid. Capex was consistent with FY19 guidance. FY19 was the final year of our strategic investment program which has laid the foundations for our T22 strategy.

Moving to dividends. The Board has resolved to pay a final dividend for FY19 of eight cents per share fully franked, including an ordinary dividend of five cents per share, and a special dividend of three cents per share. Dividends for the second half of FY19 are consistent with the first half. Total dividends for FY19 are 16 cents per share fully franked, including 10 cents ordinary and six cents of special dividends.

The ordinary dividend represents a 59% payout ratio of underlying earnings. Underlying earnings in our capital management framework now explicitly exclude restructuring costs, impairments and other guidance adjustments, as well as one-off nbn receipts. The ordinary payout is below the indicative 70 to 90% range, with the Board taking into account our overall capital management framework, which is included in the supporting material.

Turning to our capital position. Debt levels, average maturities and gross borrowing costs were all broadly flat year on year. We remain within our comfort ranges for all of our credit metrics. Our reported and underlying Return on Invested Capital were 8.8% and 8.4% respectively. We previously outlined a target for underlying ROIC to improve from FY19 to FY22. Although our aspiration remains for a post-nbn ROIC of greater than 10%, we do not expect to achieve underlying ROIC growth in FY20.

There are a number of factors that have caused this, including the impact of the AASB 16 accounting standard, which will reduce ROIC by approximately one percentage point, and delay of the nbn. I will provide more detail on accounting standards shortly.

There are four areas that I am focused on that are key to deliver improved performance and ultimately ROIC growth. Against each of these we are beginning to see positives that give us confidence. First, executing our T22 strategy and the \$2.5 billion cost-out target where we have made significant progress.

Second, managing our cash flow and capex discipline. As I mentioned FY19 was the final year of our strategic investment program. Third, building value from our key product lines. In mobile we are seeing transacting MMC uplift, and are excited by 5G. And in NAS our second half margin shows strong improvement, albeit there is some seasonality. And finally focusing on other business growth opportunities, including 5G and IOT, Global Connectivity, Health and Infrastructure.

Before I finish with FY20 guidance, it is important that I take you through the impacts of the implementation of accounting standard AASB 16, as it will impact the basis on which we provide guidance and report in FY20 and beyond. AASB 16 will result in operational lease costs moving onto the balance sheet and below EBITDA in the P&L. Although not an economic change with no impact on cash flow or our credit quality, we expect AASB 16 to increase our reported net debt

by around \$3.7 billion, and increase statutory FY19 pro forma EBITDA by \$1 billion. Reported net profit before tax will decline approximately \$60 million, mainly due to the implied interest in the capitalised lease liability.

Under AASB 16, mobile lease costs like rent, move out of EBITDA into D&A. We stopped selling mobile lease plans in June 2019. However given the run-off of lease amortisation associated with these plans, it will result in a significant non-economic lift in reported EBITDA in FY20 and FY21. On a management and guidance basis then, rent will be moved below EBITDA consistent with the accounting standard. However mobile lease amortisation will be included in underlying EBITDA, which on a pro forma basis is \$8.2 billion in FY19. This will only be necessary for FY20 and FY21, due to the run-off of lease amortisation.

Turning now to guidance. Our FY20 guidance ranges, along with the assumptions and conditions upon which we have provided them, are shown on the slide. I would like to highlight two significant aspects of this guidance. First, on underlying EBITDA, I believe the clearest view of the future financial performance of our business is one that excludes the nbn headwind. We expect FY20 to be a pivotal year for us financially, as momentum in our underlying business is expected to deliver up to \$500 million of growth, excluding the nbn headwinds. This is a significant improvement on the decline of around \$400 million in FY19.

Second, FY20 free cash flow guidance includes a significant working capital increase of approximately \$1 billion, driven predominantly from our exit of our mobile leased plans, payment of restructuring costs announced in May, and an increase in nbn receivables. We also have an outflow of \$386 million in FY20 for 5G spectrum purchased in FY19 which is excluded from guidance. Clearly we have headwinds, but we are well progressed on our transformation, with a focus on building value.

Finally on a personal note, I would like to take this opportunity to recognise and thank our dedicated teams right across Telstra. Despite going through a period of huge change, they have delivered improved customer outcomes, better network performance, innovative new products and services, and led Australia in 5G, whilst also improving productivity. I also look forward to meeting many of our investors over the coming weeks.

I will now hand back to Ross to moderate Q&A.

Analyst Questions

Ross Moffat: Thank you Vicki and Andy. We will now open to questions, and do we have any questions on the phone line please?

Operator: Thank you for waiting. The first question we have is Kane Hannan from Goldman Sachs. Go ahead.

Kane Hannan: Morning Andy, Vicki. Just three for me please, mostly on the FY20 guidance. Firstly just trying to get a clean like for like number on that guidance prior to the

accounting changes. Is it reasonable to just strip out that \$450 million of rent and lease impacts on your FY20 underlying guidance to get that comparison?

And secondly just in terms of that \$500 million underlying growth in FY20, could you give a bit more colour around I suppose the composition of that growth? I know you said you were expecting NAS EBITDA growth, but should we be expecting mobiles to do most of the heavy lifting from here?

And then finally just on the nbn headwind, so on slide 13 I think you were saying you absorbed \$1.7 billion of that recurring headwind. Is that an exit run rate this year, or you're saying that you're estimating to absorb 50% of the headwind, so should we now be thinking about that as a \$3.4 billion headwind? Cheers.

Andrew Penn: Thanks very much. Thanks for the questions. I might take the second two and then ask Vicki to comment on the first in relation to guidance and the impact of AASB accounting changes.

On the \$500 million underlying improvement, as you can see what we've tried to do is to provide a little bit more detail in terms of how the nbn headwind is actually comprised, so that you can do your own modelling on that. And I'll come back to that when I answer your third part of your question in a second. But essentially what it means at a practical level is that the initiatives we're taking in terms of improving the core mobiles business, fixed business, data and IP et cetera, are starting to bear fruit, and our productivity improvements are also helping as well. But to be clear what it means is that the productivity is doing most of the heavy lifting there, because as you can see we're delivering \$660 million next year. And that leads to a net \$500 million improvement, but that's an improvement of up to \$900 million on the previous year, which also means to your point, mobiles makes a big difference in the context of that.

And the reason we're providing that guidance is whilst obviously the mobile market's been under intense pressure and intense competition over the last couple of years, we've had very, very strong performance in SIO, so we're very pleased about that. And also we've taken a number of initiatives, particularly with the launch of the new plans, to improve value capture in the market. And as Vicki said we're seeing \$2 or \$3 improvement in our net re-contracting MMCs. So that addresses that point. It's a combination of mobiles, the underlying product profitability, as well as the underlying cost-out program. So that's the second question.

On the third point in terms of is that an exit rate. In the past we've said that we expect the impact of the headwind of the nbn to be approximately \$3 billion or at least \$3 billion. And we're moving to a sort of situation where what we'd like to do is to provide you with as much information on the composition of that as possible, so you can actually now forecast that yourselves. Because ultimately that's going to be a function of things such as where the wholesale price goes, where retail prices go, and some of those sorts of things. But to your point, yes it is, it's the exit run rate. And so therefore on that basis if you used those assumptions, it would be reasonable to assume it would be double what \$1.7 billion is. And then on the first point, I might just hand back to Vicki just to comment on the like for like and the impact of AASB.

Vicki Brady: Yeah absolutely. So if you look at the slides I spoke to, and particularly the one that outlines the impact of AASB 16, you will see that our actual underlying EBITDA in FY19 was \$7.8 billion. It does get a benefit of \$450 million by moving rent below the line, and you'll see that gives us a pro forma number of \$8.2 billion for FY19. If you then go to our guidance page, we are guiding on a like for like basis. So we use that \$8.2 billion, our pro forma number, as the comparison to our FY20 guidance. So hopefully that gives you clarity on that.

Kane Hannan: Yep. So would it be reasonable to assume the rents and that impact would be \$450 million in FY20 as well?

Vicki Brady: I mean our rents are a fairly stable number, so yes.

Kane Hannan: Perfect, thanks guys.

Ross Moffat: Thank you Kane. Our next caller is Eric Choi from UBS.

Eric Choi: Hey guys thanks. Thanks for the questions. I just had three as well. Just firstly on the on the mobile ARPUs and the out-of-bundle impacts, a bit of a silly question. I'm just wondering how, we had \$120 million of out-of-bundle impacts in the first half, and then they declined sequentially to \$80 million in the second half, just wondering mechanically how that happens?

And then just a second question on Vicki's comments around the postpaid ARPU outlook. I think we said MMCs to decline. Just wanted to confirm you mean year on year, and I guess just referring to your competitors' comments that they expect ARPUs to improve sequentially from next half. Just wondering if we can expect the same from you, ex the out-of-bundle impacts obviously?

And then just the last question. I think there's been some speculation in the press you might be prepared to sell 51% in certain assets, and obviously you'd never want to give up operational control of your mobile assets. But just wondering if you'd ever consider a minority sale in those assets?

Andrew Penn: Thanks very much Eric. Look, on the final point, as you say, I mean our network assets are strategically very important to us. So that's a good assumption. If I had anything else, I know there's been a bit of speculation on what we may or may not be doing vis a vis certain assets. As I announced this morning we have sold three international data centres where we continue to service customers out of those data centres, we don't need to own those properties, and so that was actually a really successful transaction which we did at a nine times EBITDA multiple and gained \$110 million, and that's part of our overall \$2 billion of portfolio management. But I don't have anything else to report in relation to infrastructure assets today.

On the second point on postpaid ARPU and just the trend I'll get Vicki to comment on that, and then also on the out-of-bundle revenues as well. I mean I think the point is that obviously there's a lag effect with ARPU which measures an in-force average as opposed to re-contracting ARPUs or re-contracting MMCs. And I think the main point is that we are capturing more value in our re-contracting MMCs now, and we expect to continue to do that. But there is a lag effect of that actually flowing

through, and so that's why, I think Vicki alluded to the fact that we see ARPUs starting to increase and reach the inflection point towards the second half of the year. But already we're seeing a positive movement in recontracting MMCs. I think that's similar to which others are saying in the industry. But I would observe I think that our ARPUs actually, and our share, performed very, very well compared to the industry for FY19. So we feel we're in a strong position. But Vicki, you might want to add a couple of comments there.

Vicki Brady: Yeah, if I can I'll add some comments in terms of the MMC decline. And yes I did reference MMC decline year over year. I would just call out we've had obviously a very long run of MMC increases in the market in postpaid handheld, and we flagged at the first half that we were seeing MMC flat. In the second half we have seen decline, and we do anticipate that to continue into FY20, and as Andy said that is largely a lag impact of those competitive forces that we faced in FY19 flowing through our customer base. And that transacting MMC metric is absolutely our lead indicator, and as I said albeit early days, it is up \$2 to \$3 since the launch of our new plans, and that will be our key focus. But that will take time to wash through our base and land in our ARPU.

Just on your first question which was related to the out-of-bundle revenue decline, it was lower in the second half. And as you can imagine there are actually quite a lot of factors that impact that number. It is a function of which customers move to new plans, what their out-of-bundle usage was. There are also some other out-of-bundle charges beyond data. So we did see it slower in the second half. However we still expect another \$300 million of out-of-bundle revenue to be removed from our business, and we are anticipating \$200 million of that in FY20.

Eric Choi: That's very helpful. Can I just ask a quick follow up to MMC. I guess we used to talk about mobiles and those four different cohorts, consumer, premier, Enterprise, et cetera. That transacting MMC up \$2 to \$3, is that an average across all cohorts?

Vicki Brady: No. It is a good question. It is an average across our consumer and small business segments. So the bulk of our mobile business.

Eric Choi: And then we assume then that there's still a gap or a slimdown effect for the premier and Enterprise segments, and just wondering if you can elaborate how big that gap is?

Vicki Brady: Look the trends in our Enterprise business, there's also some pressure on mobile pricing in the Enterprise market. But as you know, I mean consumer and small business are the biggest driver of our overall ARPU.

Ross Moffat: Thank you Eric. The next question is from Andrew Levy at Macquarie.

Andrew Levy: Thank you. Vicki if I could just get a bit of a clarity on the guidance and your comments that there is a benefit from the run-off of lease amortisation. So do I think about that as there's a significant year on year benefit FY20 vs FY19 in the guidance as you've stated it, as against the \$8.2 billion is the first question, if so, how much?

The second question is just on the new plans, and the MMC is obviously going very well on re-contracting of customers. Just wondering if you could comment on whether subscriber momentum has been broadly unchanged since you put those plans in the market, and how well they are being received, would be great.

And then also if you could just comment on the new plan implementation around the impacts on EBITDA that you don't have as I understand it the upfront subsidy expense going through on the customers, or is that is that an overlap with my first question, I'm not sure, but how EBITDA is impacted by the new plan structures as opposed to just MMC. Thanks.

Andrew Penn:

Thanks very much, Andrew. It's Andy. Look I might just comment on how the new plans are being received in the market, and then Vicki I'll get to comment in terms of what the flow through impact on the structure of the plans is to EBITDA and how that differs with the previous plan construct, and also your point about the like for like nature of the guidance outlook for FY20. But look I think the short answer would be we're pretty pleased with how the new plans have landed. The feedback that we're getting from customers is that they like the simplicity, and the clarity, and the flexibility of the plans, and they also like the fact that we're eliminating a lot of the previous pain points. We've now got said 820,000 customers that are enjoying peace of mind, and that is only going to accelerate now with the new plans as well.

So generally that feedback is good. Also the feedback from our teams is good as well, because they're simpler and easier, less complex for our customers, that makes it easier for our frontline teams to be able to service our customers as well. So net-net that's all playing out as we expected. I mean obviously there's a few things we're learning as we're going through the process which we will adjust to et cetera. But no, net-net is good.

In terms of momentum, we launched the plans, I think it was on the 24th or something, it was on the last week of June, we took 60% of market net adds in postpaid handheld in the fourth quarter of last year, which we were pretty pleased with. The fourth quarter is typically a slower quarter across the industry, so the industry numbers were smaller in the fourth quarter, but we certainly outperformed the industry. But that was before we put the plans out. Since then we're not seeing any material change in our volumes in Q1 we're in now, relative to the Q1 last year. There's obviously seasonality with size. But net-net we're pretty comfortable with what we're seeing in terms of overall momentum in that part of the business, which is good.

The other thing I was going to say as well, I'm going to take the opportunity, you didn't ask, but I'm going to take the opportunity to just really reinforce how pleased we are with our loyalty program. That has landed very, very positively. We've got very strong NPS from our customers that are using loyalty, is very strong relative to the average of customers overall. We've got 770,000 customers already signed up, we only launched this in April. We've also got quite a few redemptions already, and we're getting some really, really good feedback. And I think that's going to be important strategically.

And the reason I say that and I mention it here is because it's a part of the overall

package of our new plans, because we're moving to no-lock in contracts. We want to give customers the flexibility and the freedom to move. But we also want to reward them for their loyalty, and having those two things in parallel with each other is really important. So we're exceptionally pleased with how well that's gone. But with that said I'll hand over to Vicki to comment on those other points.

Vicki Brady: So Andrew let me start with the FY20 guidance question. So again just to be really clear, I know there's a little bit to take in in the numbers. The basis on which we are guiding and the FY19 pro forma is also shown on our guidance page, is that rents have moved below the EBITDA line, but we are keeping the mobile lease amortisation costs above the EBITDA line in terms of our guidance and how we will report to market.

Just to give you an indication, the supporting material does provide some breakdown on that lease amortisation, so you can see in FY19 it is a \$600 million cost, in FY20 it is \$460 million, and in FY21 it's under a \$100 million, and then it is gone as it runs off out of our business. So hopefully that gives some clarity.

Andy's answered the second one, and I think the final question was just around the impact of the new plans in terms of subsidy on our EBITDA. So we just come back to that transacting MMC measure where we're saying we're \$2 to \$3 up, that is an economic benefit for us.

Andrew Levy: Okay, but accounting wise, if I'm still on, accounting wise you used to take some of the subsidy upfront, I understood, and so just pushing that out in new plans that don't appear to have subsidy or you're going to take I guess different amounts for service revenue and handset revenue. There's no benefit that flows from that, that's like for like?

Vicki Brady: There are quite a few changes with the accounting for the new plans, and I am planning in some of our one on one follow ups I can talk more to that, and certainly at our investor day later this year I think it'll be a great point to deep dive into those accounting impacts, because yes, the new plans just broadly do move a little bit of revenue out of service revenue into hardware in the way we account for them.

Andrew Levy: Okay. I'll follow up later. Thank you.

Ross Moffat: Thanks Andrew. Next we have Sameer Chopra from Bank of America, Merrill Lynch. Sameer.

Sameer Chopra: Morning. I just had two questions. Firstly, Andy, great job on the capex reduction for next year. Could you walk us through what's driving that 12% capex to sales?

And second one Vicki just to clarify, so the EBITDA guide for next year is \$7.3 to \$7.8 billion. My mathematics take this down to an EBIT of \$3 to \$4 billion, is that correct kind of thing? So on a reported basis we're expecting a reported EBIT of \$3 to \$4 billion, I just wanted to make sure that we're all on the same page.

Andrew Penn: Okay look. Thanks Sameer. So you're talking about EBIT, so earnings before interest and tax, but after D&A, yep?

Sameer Chopra: That's right, after all the lease accounting is taken into account.

Andrew Penn: Got it. Okay I'll ask Vicki to comment on that in a second. In terms of our capex to sales, the main point is as I touched on it in my remarks, basically we have completed our strategic investment program. We announced in 2016 that would invest up to \$3 billion to really double down on the investment in our networks to create the platform for the future, and also in digitisation. We ended up spending \$2.6 billion for delivering the \$500 million worth of EBITDA benefit. And we, as committed, we are now moving to effectively what our mid-term business as usual capex to sales ratio is. I think it's a little more than 12%, next year, I think it's more like 13% or a bit over.

Vicki Brady: At the midpoint, yes.

Andrew Penn: At the midpoint it is about 13%. But I think the point is that it's predominantly the fact that we've completed that program. And importantly one of the things that that program did which I don't know was fully appreciated at the time is it created the foundation for us to be able to launch 5G. Because when people think about a new mobile telecommunications technology, there is a lot of focus and energy goes into of course the thing that you can see, which is rolling out 5G antennas and radio access equipment across our access network, across towers across the country. But what's perhaps not fully appreciated is the amount of investment and the upgrading of the capability that needs to go into the core, and into the backhaul and creating the capacity. And so we've put a lot of investments into our fibre transmission networks and back into the core to really give us that foundation, and of course also into all of the software defined network aspects of our network as well. So as I mentioned we're aiming to get basically five times the coverage of our 5G that we already have, and we're already, as I say, got a lot of customers enjoying the benefits of 5G, and that's all within that capex to sales ratio.

So I think the summary of all of that Sameer is that it's the benefit of having really identified in 2016 that it was important that we invested ahead of the curve to put us in a strong position, and set us up for the 2020s and 5G. And we're now getting the benefits of that. Our guidance on capex remains about 14% in the mid-term but trending down closer to 12%. Once we get into a post nbn world and we can release some of the capex that goes into supporting the 92% of the access network that transfers to the nbn we will obviously continue to retain responsibility for the 8%, but that will also help us make improvements on capex. So I might hand over to Vicki on the EBIT point.

Vicki Brady: Sameer, thanks for that question. So just as you are thinking about EBIT, the one call out I would make, as you look at D&A the impact of AASB 16 and the way we've treated it for guidance is \$450 million of rent that moves out of EBITDA down into D&A. So I would just flag that's an important part to factor in as you're taking it below EBITDA down to EBIT.

Sameer Chopra: Vicki, just on that, your D&A this year was \$5.5 billion right, on a AASB 16 basis? Am I right?

Vicki Brady: So it is. It is on a statutory basis, but you can see if you go to the slide where I've talked through AASB 16 in my presentation you'll see for management and guidance purposes, D&A is \$4.7 billion.

Ross Moffat: Thank you Sameer.

Vicki Brady: Thanks Sameer.

Ross Moffat: Our next inquiry's from Entcho Raykovski from Credit Suisse.

Entcho Raykovski: Hi Andy, hi Vicki. Three from me. The first one just around \$660 million fixed cost reduction in FY20. Are you able to give us anymore colour on which division do you expect that to come from? Is there a large chunk from mobile for example?

And then secondly around the increase in transacting MMC that you're seeing. Do you think it's the competitive environment that's allowing you to see that? Or is it your plans specifically? And just finally, I don't want to labour this point, but the ARPU decline obviously you guided to in postpaid handheld. Do you then expect to see an increase, you alluded to the second half being better, but do you expect to see an ARPU increase in the second half sequentially? Thank you.

Andrew Penn: Look thanks for the question. Look, a couple of things and I'll ask Vicki to add as well. I think on the first point, on the \$660 million worth of cost reduction, it comes from a number of areas, but I mean most importantly comes from the initiatives that we're taking under our T22 program to fundamentally simplify the business, flatten the structure, eliminate a lot of activity in the business. And so we've done a lot of heavy lifting, a lot of the restructuring particularly around reducing layers of management. But by moving to the new plans, and also then shifting those plans to the new technology, what we expect to do is to be able to take volume out of the system. And I already mentioned that we've reduced calls into the call centre by 35% since 2016. Our actual aim is, and they're under 30 million this year, our aim is that we've publicly quoted is to get that down to 12 million I think by the end of the program. So it's that type of dynamic.

Now it's hard to attribute it at a high level to individual products, because as you can imagine a lot of our costs are shared costs. So if you think about our Telstra stores, if you think about our call centres, our operators and our frontline people receive customers who may have queries on media, they may have queries on fixed, they may have queries on mobiles. So a lot of the costs are allocated. But I would say that it's, I would spread it fairly consistently or proportionately across our overall portfolio. There's not really one I think product set that is achieving more than another, if I can put it that way. I mean we're obviously going very hard in relation to the resell of nbn broadband services, just given how slim the margins are there. But as I say the vast majority of our costs tend to be shared across the portfolio. And then even in the network side of things of course the access layers are different. But again in the core it's a lot of shared infrastructure.

But look it's a big, it's an ambitious target. We're committed to it. It's a step up from what we've previously done. But also it benefits from a lot of the work that has been done this year obviously and so a lot flows into next year because we've taken a lot of steps. One of the reasons by the way that we made the

announcement, I think it was in either in May or early June when we said that we were bringing forward some announcements in relation to restructuring so that we could really, firstly for our people, give them more confidence and certainty that more of the people changes were behind us. But secondly to put us on a good path into FY20

But why don't I hand over to Vicki to talk to you about essentially just the evolution of ARPU. I mean in the end what ARPU does will be a bit of a function of obviously how the competitive dynamics play out in the market. I mean our focus is though to absolutely capture value and make sure we return value to shareholders, because we've invested a lot on behalf of our customers in the network, in providing more data, and in fact in providing peace of mind data, and lots of services. And I think we're at a stage in the cycle where we will see that value uplift as well as not just on our current plans but also in increasing on our plans moving into 5G as well. But Vicki.

Vicki Brady: Yeah, okay, so in terms of ARPU, I would call out obviously transacting MMC² [TMMC] as a key lead indicator. But when we look at ARPU we clearly have the out-of-bundle revenue pressure as well.

So in terms of the second half we currently expect in terms of second half ARPU declines, those declines will slow on a PCP basis is our current expectation. First half will decline faster. In terms of the sequential question, half on half, look it's probably too early to tell, particularly given the out-of-bundle revenue, and as we've just seen in our FY19 results, that out-of-bundle revenue can shift around a little bit timing wise. So I think it's too early to make a call on the second half sequential question.

Entcho Raykovski: Got it. Thank you. And maybe just a very quick follow up around the transaction MMC increase. Presumably you were seeing that before the pricing changes from Optus last week?

Vicki Brady: Yes, so I guess just a comment at a higher level. From our point of view obviously we're at the mature level end of 4G right now, and obviously entering 5G with it having launched. And I guess you see in those changes of generations in the mobile market obviously we've all got to face and look at return. We want to be able to invest the right amount of money to deliver an amazing network experience, innovative products and great customer experience for our customers as well. So certainly as we looked at our plans and where, what was the right economic level to set them at, the \$2 to \$3 TMMC increase, it was in that context. And I would expect a lot of players in the industry are probably looking at things in a similar way right now.

Entcho Raykovski: Got it, thank you.

Ross Moffat: Thanks Entcho. Our next question will come from Eric at JP Morgan.

Eric Pan: Good morning guys. Thanks for taking my question. Just on the mobile front, I mean another strong half in postpaid net adds with strong contributions from

² Verbatim "TMMC"

Belong. But with you and Optus both reporting strong adds, who were you taking share from? And on the flip side, prepay and mobile broadband were much weaker than expected. What can we attribute that to? How much of that postpaid gain came from internal prepay migration?

And then the second question. On the capex comment you had before you mentioned trending it down to 12% in the medium term. Does that include any planned 5G spend on base station expansion? And then lastly some of your smaller fixed competitors are looking to be more aggressive in the Enterprise and Wholesale space. Are you seeing the degree of competition there increase, or is it business as usual?

Andrew Penn: Thanks Eric. Again I'll make a few comments and ask Vicki to add hers as well. Maybe just go in reverse order. Look on fixed, sorry, in Enterprise in particular, yeah, no doubt there is increased competition in Enterprise. I think as there has been some of the challenges associated with reselling nbn has manifested itself with increased competition at the Enterprise sector. We're seeing that from our other competitors. And of course also nbn is being quite active in the Enterprise sector itself as well. So I do expect that to intensify, particularly as we go through a period where more businesses are now migrating or needing to go through the process of migrating their services that are impacted by the transition to the nbn. So that's the first point.

On the capex point, to be clear what I said is that our medium-term capex to sales ratio guidance is 14%, and that we would expect it to trend down towards 12% post the rollout of the nbn. The nbn rollout finishes in FY22, FY23 however you look at it, but around about that time. And that does include basically all of the things that I've communicated so far in relation to 5G. I've said that we're already at more than 320 stations across, mobile base stations in 10 cities nationally. We're looking to increase that fivefold [in area]³ over the next 12 months. And so that's incorporating what I've said in terms of my capex guidance. Were we to be even more aggressive than that or were we to develop other aspects of our 5G strategy, well then we would obviously brief the market about what the capex implications of that was. But we think we've got the balance there just about right.

And then on the prepaid mobile broadband point, I mean there's no doubt that the market dynamic over the last couple of years has been a bit of a switch from prepaid to postpaid, particularly with the increasing proportion of BYO plans, I still think the performance overall has been pretty strong. But with those comments made Vicki, is there anything else you wanted to add?

Vicki Brady: Yeah, I would just call out in terms of the postpaid handheld market. We are pleased as Andy said with our performance in the second half in that market. Just as I step back and look at the market, I think it's fair to say the June quarter was a slower quarter overall in the market, in terms of postpaid handheld net adds. And as Andy said prepaid to postpaid migration has been a dynamic in our market for some time. We are seeing that slow down a little bit now, and I think that's playing a part in those, as you look at the second half particularly the fourth quarter.

³ Verbatim "fivefold"

Overall I would say we're pleased to come through a period of high competition in mobile, and to be able to hold our SIO share in our postpaid handheld retail business, plus to do well with our multi-brand strategy with our MVNO business. And I think it's also important beyond SIOs, another key thing I look at is service revenue in the postpaid handheld market, and looking at our share of that we have we expect held share over FY19 on service revenue.

Ross Moffat: Thank you Eric. Now we move on to Fraser McLeish at MST.

Fraser McLeish: Thanks very much. Sorry just to labour the point slightly more on the AASB thing, I mean you previously talked about a \$900 million impact. I'm assuming that includes the mobile swap costs which you're now taking kind of above the bottom line in operating costs, you're saying. And then it looks like you've got some quite big savings on that coming through in FY21 and FY22, so we'll see operating costs come down in mobile by that amount in FY21, FY22. That's my first question.

Second question just on the guidance on the nbn impact, Andy, does that include the nbn moving into corporate and Enterprise as well, and just I'd be interested in your general thoughts on that. And finally could you just give an update on spectrum and timing of spectrum auctions and new spectrum coming available. Thanks.

Andrew Penn: Thanks Fraser. I'll get Vicki to comment on the AASB point. On the nbn impact does it include the impact of corporate, yes it does. Obviously we're making assumptions in relation to what the impact is going to be, but yes it does. And certainly we're now expecting that impact to be higher just given nbn themselves have suggested that that's an area of focus for them. That wasn't something that we were expecting candidly, given that the actual principal rollout hasn't actually completed yet. So we weren't expecting them to divert capital to the Enterprise sector, but nonetheless the point is that yes, it does our outlook does include that.

On spectrum, we've obviously got our 3.5 gigahertz spectrum, that's allowing us to rollout as we currently are at this stage. I don't have any further update, millimetre bandwidth spectrum. I think the best, the latest information I have is that's intended to be the second half of calendar 2020. Yeah 2020, second half of next calendar year. And then also on the low band we will be looking to utilise our 850 spectrum which we can free up through basically the volume of data that's shifting off 3G onto 4G and ultimately onto 5G. So we're pretty comfortable with how the spectrum landscape is playing out. We commend ACMA and the role that they've played in making sure that Australia is at the lead in terms of having the spectrum bands available for 5G. That's one of the reasons why Telstra can continue to be a world leader in rolling out 5G.

The other thing I'd comment on as well as of course that where the global handset manufacturers and the chipset manufacturers are beaver away on second generation chipsets, we expect those to be coming through in the second half of this calendar year, with second generation handsets coming out early next year, and also standalone 5G will be coming out technologically next year and we'll be at the forefront of that too. So a lot of exciting stuff happening on 5G. But with

that I'll maybe hand over to Vicki on the AASB point.

Vicki Brady: AASB 16. So again just, Fraser, I'll talk to it and then you can tell me if I've answered your question. So firstly our underlying EBITDA that we are guiding on for FY20 includes mobile lease amortisation in it. We have not moved it below the line in the same way that obviously our statutory reporting will do. And as I spoke to earlier that's because it would provide an uneconomic lift in EBITDA, and we've only got two more years of run off of lease amortisation. So the lease amortisation is in EBITDA in terms of our guidance for FY20. The rent expense goes below the line, so the rent on buildings et cetera does go below the line, but mobile lease is above the line for EBITDA purposes for FY20 guidance. So not sure if that helps clarify your question.

Fraser McLeish: Yeah no, so that is helpful. And then just then it will come down, you're saying that the lease expense comes down to \$100 million in FY21 and zero in FY22, so within your guidance you've got quite a, or if we look into FY21 you've kind of got \$250 million of mobile costs rolling off, is that right?

Vicki Brady: Yeah. Well we don't obviously guide to FY21, but if you look in FY20, yes. So in FY19 you can see our mobile lease amortisation was \$600 million. In FY20, we have shown in the detailed information that we've released to the market the equivalent number is \$460 million for FY20.

Fraser McLeish: And sorry, that's effectively a real cost saving in your mobile operating expenses that isn't offset by anything else, any other kind of accounting changes is that right?

Vicki Brady: Yeah that's my expectation. Given our new plans in market are economically better for us.

Fraser McLeish: Yes, thanks, that's helpful.

Andrew Penn: Thanks Fraser.

Ross Moffat: Okay, thank you Fraser. And now we have Brian Han from Morningstar.

Brian Han: Good morning. Andy do you think Telstra's mobile and coverage still warrants the kind of 15- 20% price premium to competition, or are you prepared to flex that to maybe compete even harder for customers if need be? And also my second question is what is the state of play with the whole nbn pricing consultation process? I mean from where you sit what do you think is the likely outcome? I mean I know what outcome you want, but what do you think will be the likely outcome?

Andrew Penn: Thanks Ryan. Just the two questions?

Brian Han: Yes please.

Andrew Penn: No, thank you very much. Firstly in relation to our mobile. It's more than just our mobile coverage, but does our network leadership deserve a price premium? Absolutely it does. And one of the things I know, and I hear from our customers,

and all of the research we do and all the feedback we get is absolutely what customers want is they want great coverage. They want good speeds. They want reliability. They want the best technology and 5G, and that's absolutely at the forefront of our focus. I was in the UK actually last week visiting some family, and it just struck me how poor the mobile coverage was just out, I wasn't far out of London actually, in a very heavily populated quite affluent area, and candidly I couldn't even get 3G let alone 4G. I could hardly get coverage whatsoever. And that's a manifestation of some of the dynamics in the UK market, has been it's been very difficult for the operators to invest in providing that level and quality of coverage.

And so I what I've learned, and what I believe passionately is what customers want is they want connectivity, they want coverage, they want reliability and resiliency, and they want the best technology, and that's our strategy, and that's what we invest in. Our multi-brand strategy also though enables us to provide customers who perhaps want a different value proposition, a different offering as well, and Vicki commented on it earlier, but I think it's interesting if you look at our postpaid handheld SIOs [adds], which were 378,000, that was roughly, I think it was 195,000 or so from Telstra brand and about 180,000 odd or a maybe less for Belong. And then 230,000⁴ on our MVNOs as well, which I think really shows the power of that multi-brand strategy. But no, look, we're very committed to continuing to provide the best network, based coverage, best resiliency, and best technology.

On the nbn consultation process, I think, and it's not for me to comment on, we've made our submissions, I think people are pretty clear on what our perspective is, and that's clear in the submission as well. And I think respectfully to nbn I completely understand the dynamics that they need to manage and we look forward to hearing how those deliberations play out. So I don't really have anything else to say on that.

Brian Han: Do when know when that actually plays out in the next couple of months, couple of weeks?

Andrew Penn: I actually I don't off the top of my head. In fact I don't even know if they have specified a time at which they will conclude that review. I'd be surprised if it's a couple of weeks, in fairness to nbn I think it's quite a lot of work to go through, so that's probably a question best directed at nbn.

Brian Han: Thanks guys.

Ross Moffat: Thanks Brian. And our next caller is Ian Martin from New Street.

Ian Martin: Thanks for that. Just three questions if I could very quickly. On the dividends, the payout below policy both for the ordinary and the special, the special policy of course 75% over time. But the low ordinary you say is due to issues around capital management. But when I look at the capital management slide, you're within comfort zones on all the metrics that matter. Debt servicing's I guess at the

⁴ Verbatim 220,000

higher end, but that comes down slightly I think next year. So I just wonder what it is about capital management that's causing that concern, enough to keep the dividend so far below policy.

Second question just going back to that question about prepaid migration to postpaid. Isn't the situation there that we're getting customers that might have been on a prepaid account with an entry level fixed broadband plan. That are saying "Well, why move to an nbn plan that might cost \$60 retail when I can get 30 or 40 gigabytes per month on a mobile plan?". Is that what's going on in that prepaid to postpaid migration? Because if so that that seems to me to still have some time to run.

And the third question very quickly is you pointed to some good growth in the healthcare vertical. Is that something that's particular to healthcare or are we starting to see some of those factors you talked about in terms of new technologies working across a number of different verticals there?

Andrew Penn:

Look thanks very much Ian for the questions. I might ask Vicki to comment on the dividend capital management considerations in a second. Just on the prepaid question. I think the short answer is I don't have any evidence to suggest that's a material factor. Your point there that is it customers choosing not to go onto the nbn and choosing a prepaid service instead, given that data allowances have increased on prepaid. So that's not – if that is a factor, it's not at a level that's material enough that it's come across my radar in that sense.

I think the biggest dynamic candidly has been that the trend has been for people to hold devices for longer. given where the price of devices have gone, and that's created more of a BYO market in Australia over the last two to three years, which is where both your customers are bringing their own device and then taking out a plan, and I think that's taken some of the top end of prepaid customers and pushed them over into being postpaid customers. That's the more material dynamic we see, and we've seen that quite a bit over the last couple of years. I think we may be starting to see a bit of a slowdown in that, but that's not forecast of the future, that's just what we're seeing at the moment. So that's the point on prepay.

Look on healthcare, I think it's a combination of a couple of things. I think we've been quietly working in the background in consolidating the investments and acquisitions that were made a few years ago to really focus on a few core segments. One of the things I was chatting with the team about yesterday is I think what we'll do is at an upcoming investor day we'll maybe do a little bit of a showcase on the healthcare business. Possibly not this year. We've got a lot of other things to get through and share with you. But certainly next year. But it's pretty encouraging. I think what's happening is, is that technology is definitely playing a role in improving the efficiency of the healthcare industry. And so just some of the verticals that we're in as an example is hospital electronic records. So that's digitising the records of patients when they're in a hospital. That's quite an important area of growth.

Another area we're in is electronic prescriptioning, so you can imagine that's an area of growth. Another area we're in is basically national registries where you're aware that in conjunction with the government we've rolled out a national Cancer

Registry screening for cervical cancer, and that's going really, really well, providing some great benefits for government and improve health care and security for women. And we're now in the process of rolling out another registry for bowel cancer. And the platform for that has got so much applicability.

So there's some pretty exciting things there. I think the important point is we're looking to hit break even during the course of 2020. It's not hugely material in the scheme of Telstra's economics for now, but maybe in 12 months we'll spend a bit of time provide a little bit of a deep dive on that for the market. But why don't I hand over to Vicki on the dividend and capital management point.

Vicki Brady: Thanks for that Andy. So on the dividend obviously as the Board is making the decision on the dividend the capital management framework is key input into that. And those principles are very clearly laid out. But the broad objectives of that capital management framework are also important, particularly maintaining financial strength and retaining financial flexibility.

I would point out when you look at our dividend although the ordinary dividend payout ratio is just below the range, if you look at our total dividend payout on our earnings per share we're at 88%, so there are a range of factors that the Board take into account in determining the dividend, and that has happened again this year.

Just in terms of our balance sheet as you rightly call out we have a very strong balance sheet, and remain absolutely committed to our A band credit rating, and of course that remains a factor as well in our capital management framework

Ian Martin: Great thanks for that.

Ross Moffat: Thank you Ian. And I think with constraints on time that is our last question in this section of the investor Q&A. I'll hand over to my colleague Nicole McKechnie who after a short break will continue to moderate for media questions. Thank you.

Media Questions

Nicole McKechnie: Good morning. I'm Nicole McKechnie, Communications Executive for Telstra. I understand we do have quite a number of journalists on the call at the moment but we don't have anyone registered to ask questions. So here is your opportunity. If you need to ask a question, would like to ask a question please press star one, and we'll just take a couple of minutes to let you do that, and hopefully some questions will come through.

I think we might be getting some coming through. Just one moment. Okay we do, we have Andrew White from The Australian. Andrew, can you hear me?

Andrew White: Yep, I can hear you.

Nicole McKechnie: Great. Go ahead.

Andrew White: Okay, so look, thanks for your time. I just wanted to see what your approach is going to be to Foxtel from here on in. You've got a 35% shareholding. The other

shareholder, News Corporation has put in \$500 million in shareholder loans in the last couple of months. I just wondered what Telstra wants to do with that shareholding? Whether it is going to be participating in, providing any financial support in terms of the refinancing.

Andrew Penn: Look, no, thanks very much for the question Andrew. As you know we did a deal with News about a year ago where we restructured our investment and we consolidated Fox Sports with Foxtel, and effectively gave up 15% of our shareholding in Foxtel as a consequence of that. But we felt that was the right thing to do to put Foxtel in the best possible position to respond to some of the strategic dynamics in the market.

There's no doubt the media industry is going through a bit of disruption as a consequence of what's happening from a streaming point of view, but the Foxtel team are doing a fantastic job in responding to that, really pleased with how Kayo is going, the new sports streaming service, that's having some great success. And we continue to support Foxtel. We're doing a lot of the sales that are coming through on Kayo. We have a very close partnership with the Foxtel team, and that's going really well. So we're committed to continue to support Foxtel. The financing and the loan structure is something that News are leading. But we remain a committed partner of Foxtel.

Andrew White: But is that to say are you ruling out putting any shareholder loans into the business in those financial ...

Nicole McKechnie: Andrew, finding it hard to hear you, can you just come a bit closer, speak up a little please?

Andrew White: Yes, sorry, can you hear me now?

Andrew Penn: Yep, perfect.

Andrew White: Just wondering, are you ruling out putting in any money as those existing debt maturities come up, and putting in shareholder loans as the other shareholder has been doing?

Andrew Penn: Look Andrew, I think it's only appropriate to say that any conversations around capital structures and financing are confidential between ourselves and News, so it wouldn't be appropriate for me to comment.

Andrew White: Just one other element. Can you talk to at all about what the rise of some of these other top streaming services has done to, have changed any part of Telstra's business in terms of the volume of traffic or cost?

Andrew Penn: Yeah I mean look I think if you step back and look at it at a macro level, beyond just Foxtel, I mean I think the dynamic is, is that what improved internet coverage has done and new streaming services have done is effectively provided more access to more content to customers, whether they be streaming services such as Foxtel's own Foxtel Go and Kayo, and of course obviously some of the overseas streaming services as well. It's in ultimately an increase in the volume of hours that people are watching various different forms of content, but accessing those

various different forms of content from many different providers. So historically it was typically free to air and broadcast, now it's free to air, broadcast and a multitude of streaming services as well. But overall the important point is the overall demand is going up for viewing of content, whether that's sports or TV shows or news or indeed movies.

The other dynamics that's happening of course is that historically media would have been broadcast over effectively terrestrial networks, through free to air, or through a cable service via a broadcast provider like Foxtel, through HFC cable, or through satellite. And increasingly more and more media is obviously getting distributed over the internet basically. And today we've seen a massive increase in the volume of data on our network, and we would estimate that today probably 70% of all traffic coming over our networks is actually media. So it's had a very significant impact. And that's why we're so proud that we've won the Netflix best network in Australia for 18 consecutive months, which really just demonstrates that the quality of viewing media on our network is the best in the country.

Nicole McKechnie: Thanks Andrew. Okay. Don't forget star one if you've got any questions, but next up we've got Jennifer Duke from the Sydney Morning Herald.

Jennifer Duke: Hi can you hear me?

Nicole McKechnie: Yes Jen. All good.

Jennifer Duke: Sorry I've got very poor signal at the moment. I just wanted to ask a couple of questions, Andy. First of all, are you concerned at all around the global turbulence at the moment perhaps affecting business conditions in Australia? And secondly you did express a little bit of surprise around the nbn plans to move into business so aggressively and so soon. Given a lot of the businesses, perhaps the bigger corporates already had fibre connection, do you think that is necessary for the nbn to do that?

Andrew Penn: Look thanks Jen. On the global turbulence point, I mean obviously the US market was down quite a bit yesterday, and that seems to be having quite a big impact on the Australian market this morning. I'm not a, I must admit I'm not an economist and I'm not an expert necessarily on global capital markets. I think what I would say is that telecommunications is a pretty important fundamental service and utility for customers, and if anything that's increasing in importance, just given how much we're dependent on our telecommunication networks today for more than just basic voice and messaging connectivity. But it's rapidly becoming the platform for virtually every technology innovation that's happening. Just in the last call we were talking, just the proportion of media which is watched over the internet today has increased dramatically. So the thing I would say is that in the context of a challenged market, an economically challenged market, telecommunications is always going to be a very important, safe, demand product and utility that customers want.

On the second part of your question around nbn, my simple point was really just that I hadn't necessarily expected nbn to be directing capital into the Enterprise market, when I reflect back, and when we did our calculations in terms of the impacts there's no doubt that that has an impact. I'm not really giving a comment

on that, I just think, I hadn't expected it particularly when the rest of the rollout is not yet complete.

Jennifer Duke: Thank you.

Nicole McKechnie: Thanks very much for that. I'll just do one last check any other calls? Any other questions? Star one. Looks like no further questions. So with that we will bring this to a close. Thank you very much for joining in.

[End of recorded material at 11:09:09]