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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra achieves turning point in financial performance, builds momentum towards growth

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

Authorised for lodgement

Sue Laver
Company Secretary

Telstra achieves turning point in financial performance, builds momentum towards growth

Reported Total Income[1] -11.6%, EBITDA -14.2% and NPAT +3.4%	Reported EBITDA $7.6B. Underlying EBITDA $6.7B, including second half growth.	Final dividend of 8 cents per share, total dividend of 16 cents per share.	FY22 guidance for growth in Underlying EBITDA.

Thursday 12 August 2021 – Telstra today released its results for financial year 2021, showing it had reached an important turning point in its financial performance and outlook.

CEO Andrew Penn said the company's investment in innovation, digitisation and networks, its commitment to improving customer experiences, and its disciplined approach to capital management and productivity meant that Telstra was in a strong position as it headed into FY22.

"2021 was a really significant year for Telstra. We delivered results in line with guidance and we are seeing the focus and discipline on T22 pay off," said Mr Penn.

"It represents a turning point in our financial trajectory. Our second half underlying EBITDA was up on the first half, and our guidance for FY22 underlying EBITDA is $7.0-7.3 billion, which represents mid to high single digit growth. FY21 NPAT and EPS were up 3.4 per cent and 2 per cent respectively.

"We are clearly building financial momentum and I am very pleased to be able to say that our underlying business will return to full-year growth in FY22.

"We have confidence because we see strong performance in our mobile business, continued discipline on our cost reduction target, green shoots in some of our growth businesses and a diminishing impact from the nbn."

Mr Penn said that as Telstra headed into the final year of its T22 strategy, the decision to be bold and radically transform the business for the future was clearly paying off.

"We set ourselves big ambitions and we have achieved what we said we would deliver. We have done the hard transformational work and built the capabilities to take advantage of the opportunities ahead. Telstra is fundamentally a different organisation," said Mr Penn.

"We have done this while maintaining disciplined financial management, retaining our A-band credit rating, monetising more than $2 billion of assets, repaying debt and strengthening our balance sheet."

Financial performance for FY21

On a reported basis Total Income[1] decreased 11.6 per cent for the year to $23.1 billion. NPAT increased 3.4 per cent to $1.9 billion.

Reported EBITDA decreased 14.2 per cent to $7.6 billion. After adjusting for lease accounting on a like-for-like basis, EBITDA decreased 11.5 per cent to $7.4 billion.

On a guidance basis[2] Underlying EBITDA decreased 9.7 per cent to $6.7 billion. Underlying EBITDA included an in-year NBN headwind[3] of around $650 million and an estimated $380 million financial impact from COVID. Excluding the in-year NBN headwind, underlying EBITDA in the year declined by approximately $70 million.

Basic earnings per share were 15.6 cents, up 2 per cent year on year. Shareholders will receive a fully-franked final dividend of 8 cents per share, including an ordinary dividend of 5 cents, and a special dividend of 3 cents. This brings the total dividend for the year to 16 cents per share, returning approximately $1.9 billion to shareholders.

T22 delivering transformation and financial momentum

Mr Penn said three years into the four-year strategy Telstra had completed or was on track to deliver around 80 per cent of its T22 scorecard metrics.

"We have transformed Telstra to become a simpler, more digitally enabled and leaner business," Mr Penn said.

"We have 8.8 million services on our 20 new simplified fixed and postpaid mobile Consumer and Small Business plans. We also have 3.5 million members signed up to our rewards program, Telstra Plus, and we are seeing strong engagement from these customers.

"For Consumer and Small Business customers, digital sales interactions were up 9 percentage points to 39 per cent compared to FY20, which was already up strongly on the previous year, and overall digital service interactions now account for more than 73 per cent of all service interactions.

"Under our T22 strategy, our aspiration had been to reduce the number of calls to our contact centres by two thirds by FY22. With the acceleration to digital we achieved this aspiration more than a year before the end of the program.

"That means that over time we will need smaller contact centres for these customers and more staff can work from home. We are on track to have all in-bound calls from our Consumer and Small Business customers answered in Australia by June next year. We are also progressing our transition to full ownership of Telstra-branded licensee stores across Australia, with agreements reached with almost all licensees and negotiations continuing with Vita Group.

"In customer experience, Episode NPS improved by nine points in the last year and by six points in the last six months. Similarly, Strategic NPS improved by seven points in the last year and by two points in the last six months.

"I know that not all aspects of the customer experience are yet where they need to be, and we have more work to do. However, these improvements are evidence that the many initiatives we have taken under our T22 program, in simplifying the business and digitisation, are having a positive impact."

Mr Penn said Telstra was not just leading in Australia on 5G but was also among the leaders globally.

"We have expanded our 5G rollout to selected areas in more than 200 cities and towns across Australia and the network now provides 5G coverage to more than 75 per cent of the population. Today we have around 1.6 million 5G devices connected to the Telstra network and our average combined 4G and 5G mobile speeds are faster than our competitors."

Telstra's Enterprise customers benefited from the launch of Adaptive Networks and Adaptive Mobility products which provide more flexibility to customers and should support a return to the growth of this segment.

Telstra InfraCo completed its first full year as a fully operational business function with separate accountabilities.

Mr Penn said the legal restructure of Telstra was progressing, with the separation and sale of 49 per cent of InfraCo Towers as announced on 30 June to be completed by the end of August.

"The part sale of our Towers business reinforces our view that increased transparency of our infrastructure assets, which the restructure is helping to achieve, can yield additional value for our shareholders," said Mr Penn.

“This was a key principle of our T22 strategy and the financial outcomes of the transaction, a valuation of Telstra InfraCo Towers at $5.9 billion, clearly demonstrate this. I am pleased to say that we will return up to $1.35 billion of the net cash proceeds to shareholders in FY22 through an on-market share buy-back.

“We continue to make progress towards implementing the proposed corporate restructure of our organisation. The proposed restructure is complex and involves the creation of separate subsidiaries and we continue to work very closely with our partners, our people and stakeholders throughout this process as we navigate the range of existing commercial, regulatory, and operational requirements.

“We expect the proposed restructure to be undertaken by way of scheme of arrangement. It was our intention to seek shareholder approval of the scheme at this year’s AGM on 12 October. We now aim to do so at a separate general meeting before the end of the year.”

Telstra’s commitment to drive productivity continued, with total operating expenses declining 10.2 per cent for the year. Underlying fixed costs declined $490 million, or 8.1 per cent, during FY21. Since FY16, the company has achieved around $2.3 billion of net productivity and remains on track to meet the target of delivering $2.7 billion by the end of FY22.

Under T22 Telstra has reduced around 8,300 net full-time roles, meeting its T22 commitment one year early, while also reducing 17,400 indirect roles and removing on average more than four management layers. Telstra recruited more than the planned 1,500 new roles to build capabilities required for the future, including in software engineering and information and cyber-security.

The company also continued to develop the workforce it needed for the future, with almost 17,000 people working in Agile teams.

“Our investments in Agile mean we now have one of the largest Agile workforces in Australia. Combined with our hybrid working model, which includes flexible ways of working and location agnostic roles, we are supporting our people to perform at their best while recognising, to do that, our team’s personal and work lives will become more integrated,” said Mr Penn.

Mr Penn said it was important to recognise Telstra’s achievements in FY21 were only possible because of the hard yards put in through FY19 and FY20.

“We have stayed absolutely disciplined and focused on delivering what we said we would, and three years into what has been one of the largest and most ambitious telco transformations globally we are now a vastly different company,” said Mr Penn.

“We have achieved a lot in FY21 and we are now absolutely focused on meeting the commitments that we made in our T22 strategy, maintaining momentum and delivering on the promises we’ve made.

“We will provide more detail on what comes after T22 and our strategy for the future at an Investor Day event on 16 September. This will be firmly focussed on growth and how we will be leveraging the foundation and capabilities we have built.”

Telstra’s growth businesses well positioned

Telstra highlighted the strong performance of Foxtel, Telstra Health, and Telstra Ventures during FY21, as well as the progress it was making on Telstra Energy.

“Foxtel last week reported record subscriber growth in FY21 with paid streaming subscribers up 155 per cent to over 2 million. That exceptional subscriber growth has Foxtel, and our investment in Foxtel, well positioned for the future and validates our strategy to restructure and retain our investment, giving us continued access to great content for our customers,” said Mr Penn.

“Telstra Health also had a strong year operationally and strategically, achieving 6 per cent revenue growth and we are confident it will see high-teens revenue growth in FY22.

Telstra Health recently entered into agreements to acquire leading GP clinical and practice management software company MedicalDirector, and a majority stake in PowerHealth - a global leader in healthcare and hospital software solutions. These additions are designed to help achieve the vision to create a connected and improved digital health experience for all.

“It was also a very strong year for Telstra Ventures where the value of our investment increased by almost $300 million on a mark to market basis. Telstra Ventures is one of the most successful corporate backed venture firms globally. Not only have our investments given us access to key insights and technologies, it has been an accelerator of our own innovation,” said Mr Penn.

“Of the 74 start-ups Telstra Ventures has invested in, 12 have achieved unicorn status with a value in excess of $1 billion and four of those have gone on to be valued at more than $10 billion.”

There was also further progress on Telstra Energy’s entry into the retail energy market, with initial testing of customer sign up and billing processes planned for the coming months pending grant of licences.

The year ahead

Telstra provided the following financial guidance for FY22[4], which showed the underlying business returning to full-year growth:

- Total Income of $21.6 billion to $23.6 billion.
- Underlying EBITDA[5] of $7.0 billion to $7.3 billion.
- Capex[6] of $2.8 billion to $3.0 billion.
- Free cashflow after lease payments (FCFal)[7] of $3.5 billion to $3.9 billion.

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Full details of Telstra’s financial results and all materials lodged with the ASX can be found www.telstra.com.au/aboutus/investors

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[1] Total income excluding finance income
[2] FY21 guidance assumed no impairments in and to investments or non-current tangible and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum, and excluded the impacts of Pitt St exchange sale and leaseback. The guidance was based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance. Refer to Full-year results and operations review – guidance vs reported results reconciliation (set out in our ASX announcement titled “Financial results for the full year ended 30 June 2021” lodged with the ASX on 12 August 2021).
[3] In-year nbn headwind defined as the net negative recurring EBITDA impact of the nbn on our business for the reporting period.
[4] FY22 guidance excludes material one-offs, such as mergers and acquisitions, disposals, impairments, spectrum, restructuring costs and such other items as determined by the Board and management.
[5] Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C and guidance adjustments. FY20/21 underlying EBITDA also includes depreciation of mobile lease right-of-use assets.
[6] Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases.
[7] Free cashflow after lease payments defined as ‘operating cash flows’ less ‘investing cash flows’ less ‘payments for lease liabilities’, and excludes spectrum and guidance adjustments.