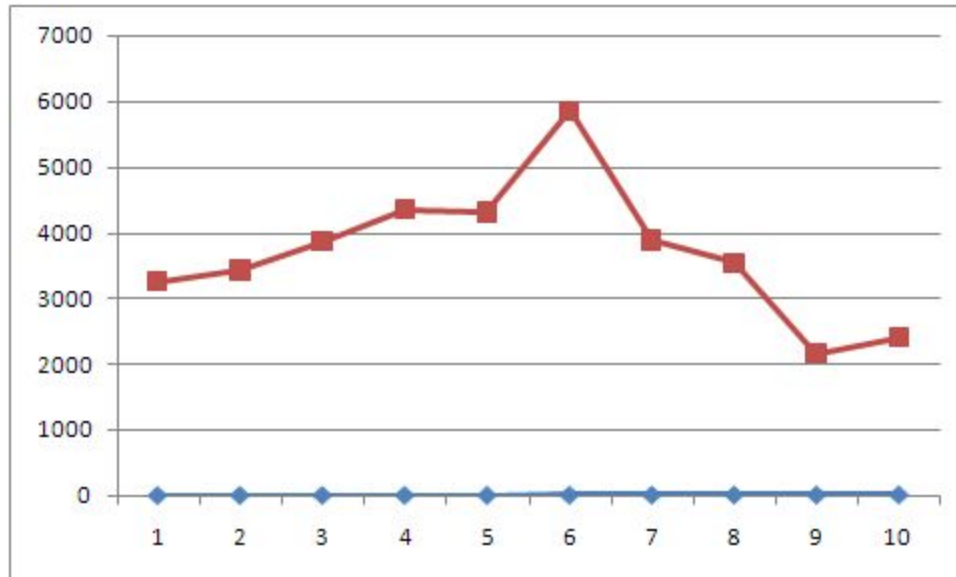


TELSTRA'S OPERATIONS LEASING STRATEGY

Telstra Corporation Limited is an Australian telecommunications company that builds and operates telecommunications networks and markets voice, mobile, internet access, pay television and other products and services.

Telstra is facing a decline in its profits over the past four years. The Annual Income statement of the Telstra Company shown that its profit was progressing from FY 2011 to 2016 slowly, but it saw a massive decline in their earnings from FY'16.



The profit for FY 2016 was \$m 5,849 since then the firm is wading with profitability; there is a considerable decline in its earnings. It has fallen to \$m 2,149 in FY 2019.

Telstra has come up with multiple strategies to cut down their costs

- Net reduction of 8,000 employees and contractors and reduction of 2-4 layers of management.
- The monetization of up to \$2 billion in assets over the next two years to strengthen the balance sheet.
- Excluded restructuring costs of approximately \$600 million in FY19 EBITDA to remain a premium brand and lead and win 5G.

Telstra adopted many strategies from the past four years to incline itself towards higher profitability and reduce their financing costs. These helped them to reduce their financing costs, but the profits of the firm are still reducing from the periods, so under this skeptical situation, they must adopt a strategy that could assist them in leveling up their profits and take to new advanced 5G Technology and provide the customer with a better experience of communication. So Telstra has come up with an idea of handset leasing which they incorporated into their T22 strategy.

They set out multiple mobile plans with different angularities, looking into the mindset of customers. They embarked this strategy in June 2018, where Telstra pondered with this plan for mobile phone leasing:









Below shown is how Telstra inculcated its “New Phone Feeling”, what we call ‘handset leasing’

Telstra's "New Phone Feeling" is an option built into all new Telstra handset leasing plan that allows you to upgrade your phone before you finish paying it off. You can also use New Phone Feeling to upgrade your tablet if you have it on a Telstra repayment plan.

Here's how New Phone Feeling works. You take up any of Telstra's mobile plans and add a handset to be paid off over either 24 or 36 months. In the final 12 months of your repayment plan, you can choose to either continue paying it off, or pay Telstra \$149, return the phone (in "good working order"), and take up a new 24 or 36-month handset repayment plan.

You won't be charged any early exit fees by Telstra, beyond the \$149, as all Telstra plans are now contract-free. You can leave at any time and pay nothing except the remaining value of your handset.

Here are the top 8 most popular handsets currently available through Telstra:

#1		Apple iPhone 11 64GB ✓ 6.1 inch display ✓ 12MP camera ✓ Apple iOS	Choose 8 Plans from \$83.30/mth Min. cost \$1,248.80
#2		Apple iPhone 11 128GB ✓ 6.1 inch display ✓ 12MP camera ✓ Apple iOS	Choose 8 Plans from \$85.53/mth Min. cost \$1,329.08
#3		Apple iPhone 11 256GB ✓ 6.1 inch display ✓ 12MP camera ✓ Apple iOS	Choose 8 Plans from \$90.25/mth Min. cost \$1,499
#4		Apple iPhone 11 Pro 64GB ✓ 5.8 inch display ✓ 12MP camera ✓ Apple iOS	Choose 8 Plans from \$98.58/mth Min. cost \$1,798.88
#5		Apple iPhone 11 Pro 256GB ✓ 5.8 inch display ✓ 12MP camera ✓ Apple iOS	Choose 8 Plans from \$105.52/mth Min. cost \$2,048.72
#6		Apple iPhone 11 Pro 512GB ✓ 5.8 inch display ✓ 12MP camera ✓ Apple iOS	Choose 8 Plans from \$115.25/mth Min. cost \$2,399
#7		Samsung Galaxy S20 128GB ✓ 6.7 inch display ✓ 64MP camera ✓ Android	Choose 8 Plans from \$87.47/mth Min. cost \$1,398.92
#8		Samsung Galaxy S20 5G 128GB ✓ 6.2 inch display ✓ 64MP camera	Choose 8 Plans from

How much does it cost to upgrade my phone?

Mobile phone condition	12-18 months	19-24 months	After 24 months	Any time with Assure
Good working order	\$99	\$0	\$0	N/A
Minor damage or a cracked screen	\$229	\$229	\$229	\$190
Damaged Beyond Economic Repair (BER)	\$499	\$399	\$299	\$190

*Fair Market Value is calculated based on the manufacture, model, condition and age of your phone.

Now, Let's discuss the financial impact of this adopted T22 Strategy and 5G Leadership. Before that let's comprehend their Profits, EBITDA, financing costs of the past few years.

Income Statement

Telstra Financial Report 2016

For the year ended 30 June 2016

Telstra Group	Note	Year ended 30 June	
		2016	2015
		\$m	\$m
Continuing operations			
Income			
Revenue (excluding finance income)	2.2	25,911	25,528
Other income	2.2	1,139	584
		27,050	26,112
Expenses			
Labour		5,041	4,782
Goods and services purchased		7,247	6,845
Other expenses	2.3	4,312	3,971
		16,600	15,598
Share of net profit from joint ventures and associated entities	6.3	15	19
		16,585	15,579
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		10,465	10,533
Depreciation and amortisation	2.3	4,155	3,974
Earnings before interest and income tax expense (EBIT)		6,310	6,559
Finance income	2.2	86	147
Finance costs	2.3	796	846
Net finance costs		710	699
Profit before income tax expense		5,600	5,860
Income tax expense	2.4	1,768	1,746
Profit for the year from continuing operations		3,832	4,114
Discontinued operations			
Profit for the year from discontinued operations	6.4	2,017	191
Profit for the year from continuing and discontinued operations		5,849	4,305
Attributable to			
Equity holders of Telstra Entity		5,780	4,231
Non-controlling interests		69	74
		5,849	4,305
Earnings per share from continuing operations (cents per share)		cents	cents
Basic	2.5	31.6	33.5
Diluted	2.5	31.5	33.5
Earnings per share (cents per share)			
Basic	2.5	47.4	34.5
Diluted	2.5	47.3	34.5

The notes following the financial statements form part of the financial report.

Income Statement

Telstra Financial Report 2019

For the year ended 30 June 2019

Telstra Group	Note	Year ended 30 June	
		2019	2018
		\$m	Restated \$m
Income			
Revenue (excluding finance income)	2.2	25,259	25,848
Other income	2.2	2,548	2,993
		27,807	28,841
Expenses			
Labour		5,279	5,207
Goods and services purchased		9,138	8,338
Net impairment losses on financial assets		184	190
Other expenses	2.3	5,234	4,887
		19,835	18,622
Share of net profit/(loss) from joint ventures and associated entities	6.2	12	(22)
		19,823	18,644
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		7,984	10,197
Depreciation and amortisation	2.3	4,282	4,470
Earnings before interest and income tax expense (EBIT)		3,702	5,727
Finance income	2.2	238	218
Finance costs	2.3	868	806
Net finance costs		630	588
Profit before income tax expense		3,072	5,139
Income tax expense	2.4	923	1,582
Profit for the year		2,149	3,557
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		2,154	3,591
Non-controlling interests		(5)	(34)
		2,149	3,557
Earnings per share (cents per share)		cents	cents
Basic	2.5	18.1	30.2
Diluted	2.5	18.1	30.2

The notes following the financial statements form part of the financial report.

Income Statement

Telstra Financial Report 2017

For the year ended 30 June 2017

Telstra Group	Note	Year ended 30 June	
		2017	2016
		\$m	\$m
Continuing operations			
Income			
Revenue (excluding finance income)	2.2	26,013	25,911
Other income	2.2	2,192	1,139
		28,205	27,050
Expenses			
Labour		5,381	5,041
Goods and services purchased		7,671	7,247
Other expenses	2.3	4,506	4,312
		17,558	16,600
Share of net profit from joint ventures and associated entities	6.3	32	15
		17,526	16,585
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		10,679	10,465
Depreciation and amortisation	2.3	4,441	4,155
Earnings before interest and income tax expense (EBIT)		6,238	6,310
Finance income	2.2	138	86
Finance costs	2.3	729	796
Net finance costs		591	710
Profit before income tax expense		5,647	5,600
Income tax expense	2.4	1,773	1,768
Profit for the year from continuing operations		3,874	3,832
Discontinued operations			
Profit for the year from discontinued operations		-	2,017
Profit for the year from continuing and discontinued operations		3,874	5,849
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		3,891	5,780
Non-controlling interests		(17)	69
		3,874	5,849
Earnings per share from continuing operations (cents per share)		cents	cents
Basic	2.5	32.5	31.6
Diluted	2.5	32.5	31.5
Earnings per share (cents per share)			
Basic	2.5	32.5	47.4
Diluted	2.5	32.5	47.3

The notes following the financial statements form part of the financial report.

Income Statement

For the year ended 30 June 2018

Telstra Financial Report 2018

Telstra Group	Note	Year ended 30 June	
		2018	2017
		\$m	\$m
Income			
Revenue (excluding finance income)	2.2	26,011	26,013
Other income	2.2	3,031	2,192
		29,042	28,205
Expenses			
Labour		5,157	5,381
Goods and services purchased		8,758	7,671
Other expenses	2.3	4,984	4,506
		18,899	17,558
Share of net (loss)/profit from joint ventures and associated entities	6.3	(22)	32
		18,921	17,526
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		10,121	10,679
Depreciation and amortisation	2.3	4,470	4,441
Earnings before interest and income tax expense (EBIT)		5,651	6,238
Finance income	2.2	82	138
Finance costs	2.3	631	729
Net finance costs		549	591
Profit before income tax expense		5,102	5,647
Income tax expense	2.4	1,573	1,773
Profit for the year		3,529	3,874
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		3,563	3,891
Non-controlling interests		(34)	(17)
		3,529	3,874
Earnings per share (cents per share)		cents	cents
Basic	2.5	30.0	32.5
Diluted	2.5	30.0	32.5

The notes following the financial statements form part of the financial report.

Half year results and operations review

Summary financial results	1H20	1H19	Change
	\$m	\$m	%
Revenue (excluding finance income)	12,164	12,586	(3.4)
Total income (excluding finance income)	13,413	13,798	(2.8)
Operating expenses	8,638	9,541	(9.5)
Share of net profit/(loss) from equity accounted entities	(2)	1	n/m
EBITDA	4,773	4,258	12.1
Depreciation and amortisation	2,722	2,141	27.1
EBIT	2,051	2,117	(3.1)
Net finance costs	375	320	17.2
Income tax expense	526	569	(7.6)
Profit for the period	1,150	1,228	(6.4)
Profit attributable to equity holders of Telstra	1,139	1,233	(7.6)
Capex ¹	1,366	2,340	(41.6)
Free cashflow	1,520	627	142.4
Earnings per share (cents)	9.6	10.4	(7.7)

Telstra delivered 1H20 results in line with guidance and expectations showing strong progress against their T22 strategy and cost reduction, and continued customer growth thanking their multi-brand strategy and 5G leadership.

On a reported basis, total income declined by 2.8 percent and NPAT declined 6.4 percent. Underlying EBITDA declined by 6.6 percent. Underlying EBITDA excluding the in-year nbn headwind increased by approximately \$90 million, the first time this figure has grown since FY16.

The results show that the T22 strategy is building value and delivering positive financial momentum. Telstra now has 2.4 million new services, radically simplified plans and more than 1.2 million customers are now able to enjoy the benefits of being a Telstra Plus member. More customers are choosing to interact online with digital service interactions rising to 57 percent and the volume of calls to our call centers continuing to fall.

Progress on T22, combined with ongoing efforts to simplify the business, helped reduce underlying fixed costs by \$422 million or 12.1 percent. This brought the total underlying fixed cost reductions to around \$1.6 billion since FY16.

The multi-brand strategy continued to deliver growth in customer numbers, particularly on mobile. Customers are enjoying access to Telstra's world-leading 5G mobile network and a growing range of 5G-enabled devices. Customers now have 5G coverage in selected areas in 32 cities and regional areas and are on track for the target of 35 by the end of FY20.