



25 October 2021

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra to acquire Digicel Pacific in partnership with the Australian Government

In accordance with the Listing Rules, I attach a market release and accompanying slides for release to the market.

Authorised for lodgement by:

Sue Laver
Company Secretary

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Telstra to acquire Digicel Pacific in partnership with the Australian Government

25 October 2021 – Telstra today announced it had partnered with the Australian Government to acquire the Digicel business in the South Pacific region for US\$1.6 billion, plus up to an additional US\$250 million subject to business performance over the next three years.

The Digicel business will be owned and operated by Telstra. Telstra is contributing US\$270 million of equity to the US\$1.6 billion purchase price and the Australian Government, through Export Finance Australia, is providing the remaining US\$1.33 billion through a combination of non-recourse debt facilities and equity like securities. Telstra will own 100 per cent of the ordinary equity.

Chief Executive Officer, Andrew Penn said Telstra was initially approached by the Australian Government to provide technical advice in relation to Digicel Pacific and subsequently considered acquiring the business with financial and strategic risk management support from the Government. Mr Penn said the partnership represented an important milestone in the company's relationship with the Australian Government.

Mr Penn said the terms of the sale had now been agreed with completion expected to occur in the next 3-6 months.

"Digicel Pacific is a commercially attractive asset and critical to telecommunications in the region. The Australian Government is strongly committed to supporting quality private sector investment infrastructure in the Pacific region. We previously said that if Telstra were to proceed with a transaction it would be with financial and strategic risk management support from the Government. We also said that in addition to a Government funding and support package, any investment would also have to be within certain financial parameters with Telstra's equity investment being the minor portion of the overall transaction. I am pleased that we have been able to achieve both of those outcomes," said Mr Penn.

Mr Penn said the acquisition was attractive for a number of reasons including the economics of the Digicel Pacific business, alignment with Telstra's core strengths as well as the support from the Australian Government.

"Digicel enjoys a strong market position in the South Pacific region holding a strong number one position in all markets other than Fiji where it is the number two. The combined business generated EBITDA of US\$233 million for the financial year ended 31 March 2021, with a strong margin. Digicel Pacific has already invested significant capital in PNG, which is its largest market, to achieve extensive network coverage including 4G to 55 per cent of the population. The medium to long-term capex to sales is expected to be around 15 per cent," said Mr Penn.

The transaction is expected to deliver an attractive IRR and exceeds all Telstra M&A criteria – EPS accretive, ROIC above WACC and more accretive than a share buyback. The transaction implies a multiple of 5.8¹-6.9x FY21 EBITDA for the acquisition of Digicel Pacific.

"Telstra provided guidance to the market for FY22 at its recent full year results presentation and it also provided aspirations for FY23. These did not include any allowance for the Digicel Pacific acquisition which will further enhance our outlook depending on the timing of completion," said Mr Penn.

"The transaction does not distract from Telstra's T22 or T25 strategies and represents a unique commercial opportunity. It is consistent with the Australian Government's interest in encouraging quality investment in the Pacific, the financial arrangements make it very attractive for Telstra and it strengthens our relationships with the Australian Government and the Pacific region. The Board unanimously believes the transaction is in the best interests of shareholders and it is on this basis that Telstra has agreed to proceed with the acquisition."

¹ Estimated transaction multiple adjusted for transaction structure

MARKET RELEASE



Upon completion of the transaction which is subject to Government and Regulatory approvals and following Telstra's corporate restructure, the Digicel Pacific investment will be held by Telstra International which will become a fourth subsidiary of the new Telstra holding company, announced as part of its legal restructure. The Digicel Pacific business will be overseen by a Telstra controlled board which will also include current owner Denis O'Brien and two independent directors.

"We understand the need to ensure this is a stand-alone business and that Telstra delivers on its commitments as part of the T22 and T25 strategies, as well as our intention to grow in coming years," said Mr Penn.

Digicel Pacific was founded in 2006 by Mr O'Brien, a global entrepreneur with a successful track record in growing businesses. It is a leading provider of communications services across PNG, Fiji, Nauru, Samoa, Tonga and Vanuatu. The company has around 2.5 million subscribers and 1700 employees generating US\$431 million in service revenue for the financial year ended 31 March. The majority of the revenue is generated in PNG.

It is the number one player in all markets except Fiji, with strong underlying revenue growth. Around 76 per cent of its revenue is generated from its mobiles business, which is largely prepaid, and the balance from business solutions, TV and broadband services. Digicel Pacific currently services 1,500 small to medium business enterprises, 250 large enterprises and 200 corporates in PNG.

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Telstra to acquire Digicel Pacific in partnership with the Australian Government



Acquisition

- Telstra will acquire the Digicel business in the South Pacific region for US\$1.6 billion, plus up to an additional US\$250 million subject to business performance over the next three years
- Financial and strategic risk management support from the Australian Government

Funding and Preferred Return

- Telstra is contributing US\$270 million of equity to the US\$1.6 billion purchase and will own 100 per cent of the ordinary equity
- The Australian Government, through Export Finance Australia (EFA), is investing the remaining US\$1.33 billion through a combination of non-recourse debt facilities and equity like securities
- Telstra is entitled to receive a preferred return of US\$45 million per annum for the first six years

Value Accretive

- The Digicel Pacific business generated EBITDA of US\$233 million for the financial year ended 31 March 2021, with a strong margin
- The transaction is expected to deliver an attractive IRR and exceeds all Telstra M&A criteria – EPS accretive, ROIC above WACC and more accretive than a share buyback. The transaction implies a multiple of 5.8¹-6.9x FY21 EBITDA for the acquisition of Digicel Pacific
- Medium to long-term capex to sales is expected to be around 15 per cent

Strategic Alignment

- Consistent with the Australian Government's interest in encouraging quality investment in the Pacific
- Strengthens Telstra relationship with the Australian Government and the Pacific region
- No Telstra exit before end of year six

Legal Structure

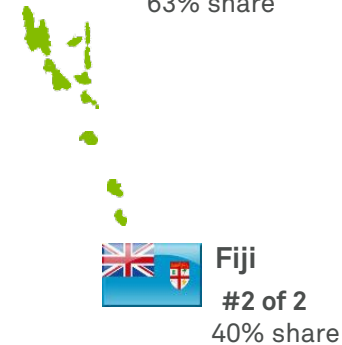
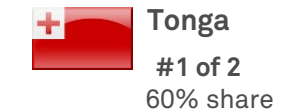
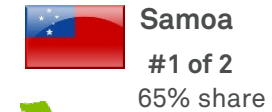
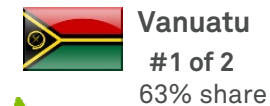
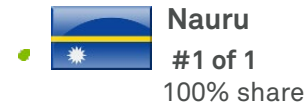
- Digicel Pacific investment will be held by Telstra International. Telstra International will be a subsidiary of the new Telstra holding company, following the previously announced corporate restructure
- The Digicel Pacific business will be overseen by a Telstra controlled board which will also include current owner Denis O'Brien and two independent directors

¹ Estimated transaction multiple adjusted for transaction structure

The leading telecommunications operator in the region with 2.5m subscribers



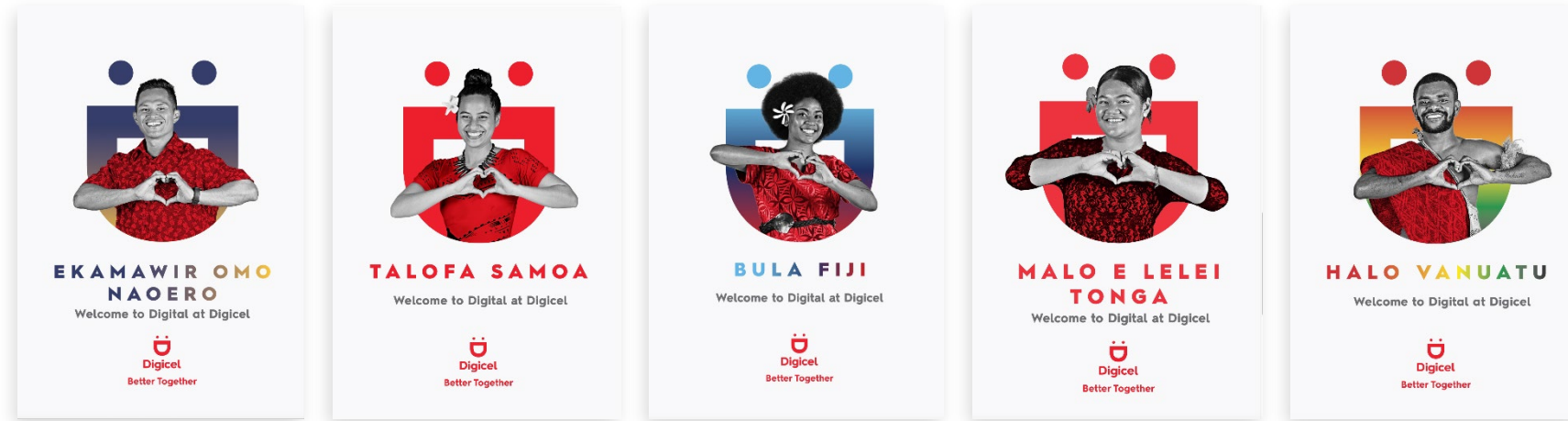
Hub Markets



Source: Company information.

Notes: #: Market Position of Total Market Participants. %: Share Represents Subscriber Market Share. As at March 2021.

A strong brand in the Pacific region



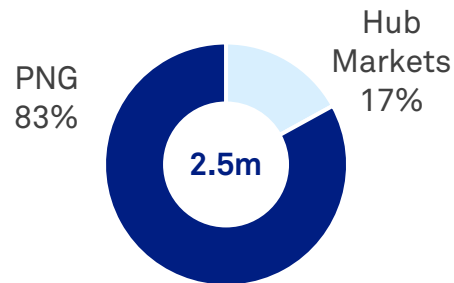
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Three complementary revenue streams

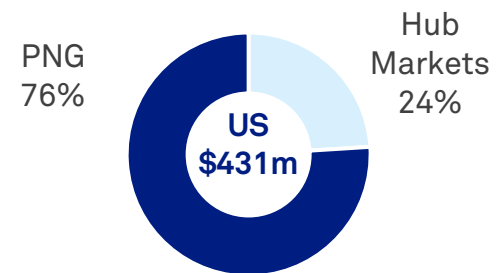


KPIs by Market

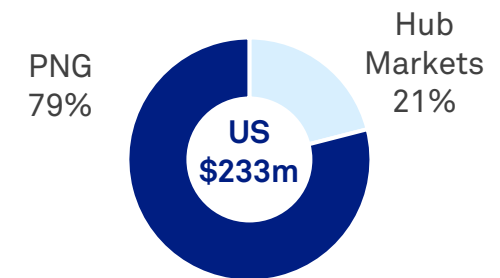
Subscribers



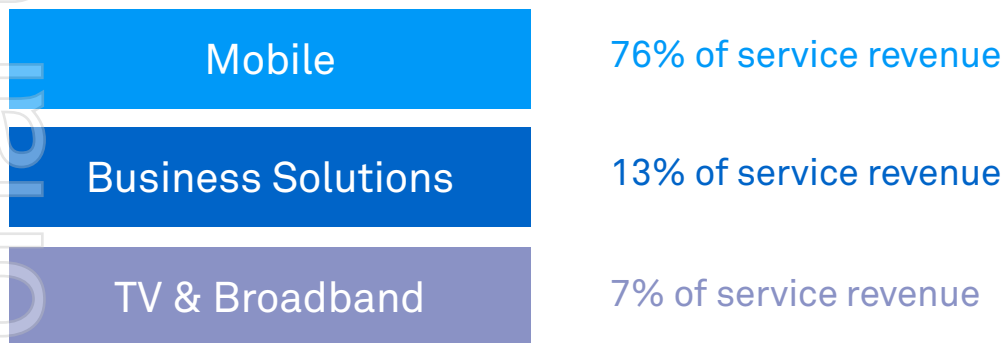
Service revenue



EBITDA



Revenue by Segment



Source: Company information.

Notes: Information based on the financial year ended 31-March-2021.

Capital structure



US\$m Comments

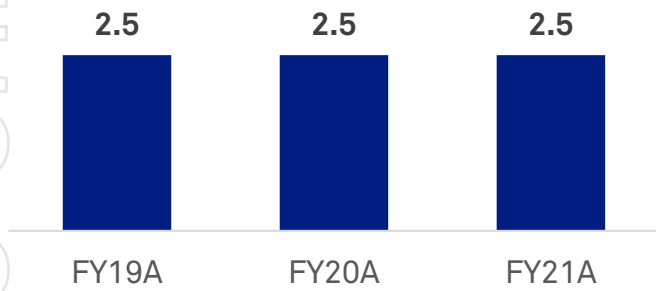
Government EFA funding	Debt	720	<ul style="list-style-type: none"> Non-recourse debt facilities provided by EFA 10 year term with options to extend No guarantees or other support provided by Telstra
	Equity like securities	610	<p>A combination of two non-voting equity like securities</p> <ul style="list-style-type: none"> US\$360m to be issued with discretionary distributions; and US\$250m to be issued that ranks behind Telstra's ordinary equity with limited rights to distributions
Telstra	Ordinary equity	270	<ul style="list-style-type: none"> Ordinary equity held by Telstra with entitlement to receive a preferred return of US\$45 million per annum for the first six years After year 6, priority is given to senior debt repayment
		1,600	

Other support items	<ul style="list-style-type: none"> Competitive pricing and terms on EFA funding Government support for cash repatriation from regions (where required) and FX protections for servicing funding obligations and Telstra's preferred dividend Political Risk Insurance obtained including for certain political and regulatory interventions for six years Any Earn Out payment to be funded on an 80/20 (Government EFA funding/Telstra) basis
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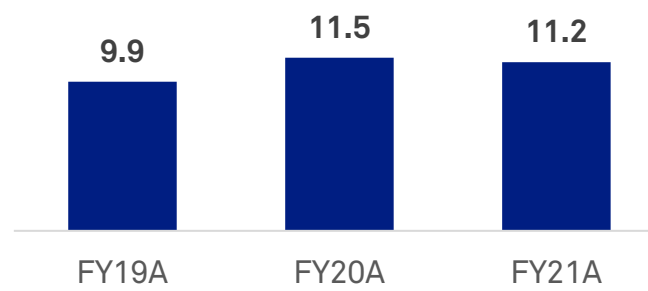
Digicel - financial performance metrics



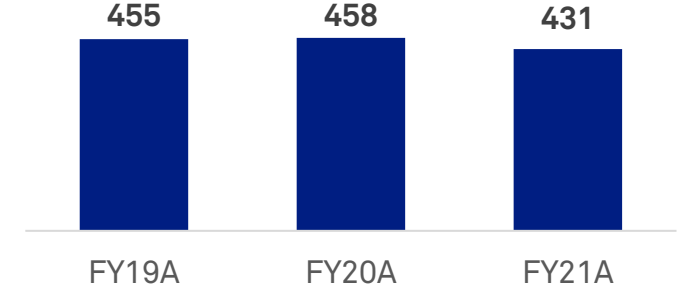
Subscribers (in millions)



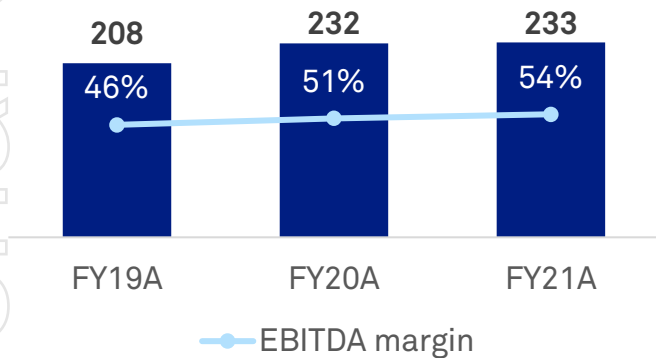
ARPU (US\$)



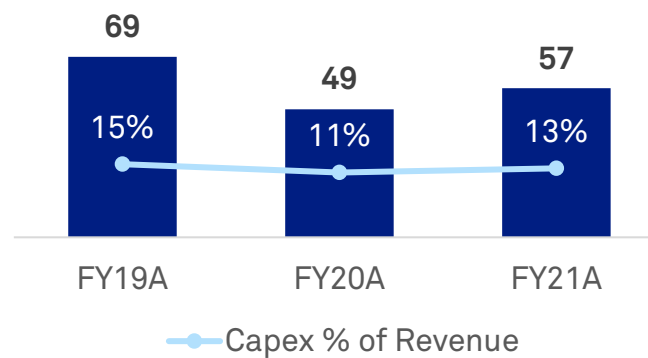
Service revenue (US\$ million)



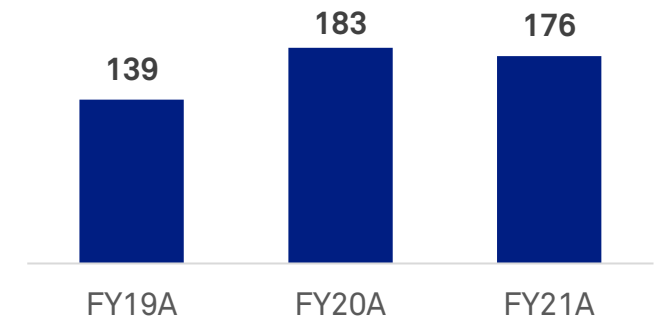
EBITDA (US\$ million)



Capex (US\$ million)



EBITDA less Capex (US\$ million)



Source: Company information.

Notes: Information based on the financial year ended March 2021. IFRS16 adopted for FY20 and FY21 on a prospective basis, i.e. no restatement of FY19