Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 03 8647 4838
Facsimile 03 8600 9800

16 August 2018

The Manager

Market Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra announces financial results for FY18

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

This announcement has been released simultaneously to the New Zealand Stock Exchange.

Yours faithfully

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Company Secretary

MARKET RELEASE

Telstra announces financial results for FY18

Highlights:

- **On a reported basis from continuing operations:**
  - **Total income[1] increased 3.0 per cent to $29.0 billion**
  - **EBITDA reduced 5.2 per cent to $10.1 billion**
  - **NPAT reduced 8.9 per cent to $3.5 billion**
  - **Basic earnings per share reduced 7.7 per cent to 30.0 cents**
- **On a guidance[2] basis:**
  - **Total income[1] increased 1.6 per cent to $28.6 billion**
  - **EBITDA reduced 5.9 per cent to $10.1 billion**
  - **Free cash flow was $4.9 billion**
- **Underlying core fixed costs reduced by 7.0 per cent or $480 million**
- **Final dividend of 11 cents per share taking total dividend for FY18 to 22 cents per share**
- **Added 342,000 domestic retail mobile customer services, 88,000 domestic retail fixed broadband customers, 135,000 Retail bundles and 229,000 wholesale mobile services**
- **nbn connections grew by 770,000 to 1,946,000 for a total market share (excluding satellite) of 51 per cent**
- **Sports Live Pass users increased by nearly 1 million to 2.3 million across AFL, NRL and Netball**

Thursday 16 August 2018 –Telstra today released its full year results for financial year 2018, in line with guidance and showing strong subscriber growth in fixed and mobile, and provided early progress on its recently announced Telstra2022 (T22) strategy.

The Board announced a fully franked final dividend of 11 cents per share. This brings the total dividend for the financial year to 22 cents per share, comprising an ordinary dividend of 15 cents and a special dividend of 7 cents, in accordance with the dividend policy announced in August 2017.

On a reported basis Telstra increased Total Income by 3.0 per cent, Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) reduced by 5.2 per cent and Net Profit after Tax (NPAT) decreased by 8.9 per cent.

Telstra CEO Andrew Penn said the results showed strong customer growth for the year and good progress on Telstra's productivity program, however the continued downward pressure on EBITDA and NPAT caused by the further rollout of the nbn and lower Average Revenue per User (ARPU) clearly reinforced the importance of the T22 strategy.

"We have seen strong subscriber growth, particularly in the second half of the year, adding 342,000 retail mobile customers, 88,000 retail fixed broadband customers and 135,000 retail bundles during FY18," Mr Penn said.

"Despite this, the challenging trading conditions are expected to continue in FY19, including ongoing pressure on ARPU and further negative impact of the nbn network rollout on our underlying earnings.

"While it is less than two months since we presented our new strategy, we are well into the execution phase, building on the momentum provided by our up to $3 billion strategic investment in Networks for the Future and digitising the company."

Telstra2022 strategy

On 20 June 2018 Telstra announced its new T22 strategy to lead the Australian market by simplifying its operations and product set, improving customer experience and reducing its cost base.

T22 will deliver six key outcomes covering customer experience, simplification, network superiority, employees, cost reduction and strengthening the balance sheet.

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1 Excluding finance income.
2 This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017. Capex excluded externally funded capex.

Mr Penn said Telstra had already made strong early progress on the new strategy, launching new mobile plans with no excess data charges, and announcing a new organisational structure, leadership team and operating model.

Telstra InfraCo has also been established as a standalone business unit with pro-forma financials provided as part of the financial results.

Strategic Investment program

The new strategy builds on the foundation provided by Telstra's up to $3 billion strategic investment in creating the Networks for the Future and digitising the business.

Telstra remains on track to realise the benefits of the investment program, with $1.8 billion invested to date, including $1.5 billion in Networks for the Future as the company prepares for the launch of 5G, and $300 million on digitisation.

Mr Penn said this had enabled Telstra to grow the competitive differentiation provided by its network superiority and reliability.

"Our ongoing strategic investment in the performance of our mobile and fixed networks for our customers has been recognised by a number of key industry benchmarks. We were ranked number one on the Netflix Speed Index in July 2018 and also became the first Australian provider to win both the fixed and mobile Ookla fastest networks for Q1-Q2 2018.

"We also continued to make significant progress in preparing for the commercial launch of 5G, which is central to Telstra's network investment strategy, through a number of major milestones.

"Yesterday we announced we had switched on 5G technology across selected areas of the Gold Coast, making us the first in the country to be 5G ready, and we expect to have more than 200 5G-capable sites live around the country by the end of 2018."

The key highlights from networks investment for FY18 include:

- More than 500 new and 1,100 upgraded mobile sites, and around 400 small cells activated.
- The 450th mobile base station under the Federal Government's Mobile Black Spot Program was switched on.
- Significantly boosted Telstra's Internet of Things (IoT) capability by activating Cat M1 across the 4GX coverage footprint and adding Narrowband IoT coverage in major Australian cities and many regional towns. Telstra is one of the first carriers in the world to offer both IoT technologies, enabling customers to deploy devices like sensors, trackers and alarms to better monitor and manage machines, vehicles and livestock. Telstra also deployed range extension capability taking the Cat M1 coverage footprint for compatible devices to around 3 million square kilometres.
- Completed an upgrade of the transmission network between Sydney, Melbourne, Brisbane, Adelaide, and Perth, updating it to optical transport technology capable of supporting 8.8 Tbps between these CBDs.
- World's first 5G data call over 26GHz mmWave spectrum, and the first end-to-end call over 3.5GHz spectrum, bringing together the core components from multiple companies required for a real commercial 5G network call.
- Established the world's first 5G-enabled Wi-Fi precinct on the Gold Coast and tested Australia's first 5G car on the road.
- Turned on LTE-Broadcast (LTE-B) technology nationally, with customers using Samsung Galaxy S8 and Galaxy S9 devices now benefitting from more reliable High Definition streaming using the AFL Live Official App. Telstra is the only operator in Australia and one of the first in the world to deploy LTE-B into its mobile network.
- Improved network resiliency with a more than 80 per cent reduction in mobile customer outage hours since June 2016.

Mr Penn said Telstra was building a new digital stack for its Consumer & Small Business and Enterprise customers, covering the full customer lifecycle that would underpin Telstra's ability to move to a new, simplified product suite and improve customer experience.

"Digital continues to grow as the way many customers like to be served and offers great opportunities to deliver a better customer experience. We have made significant progress in the development of the new core digital platforms with Enterprise already moving customers to the new environment and Consumer & Small Business to begin its migration in FY19," Mr Penn said.

"Calls into our mass market call centres fell 13 per cent during the year, and almost 4 million customers are now active users of our 24/7 app, which is a 22 per cent year-on-year increase. Our 24/7 app enables consumer customers to self-manage their account and services from their smartphone or tablet and has recently been redesigned to make it even easier and more intuitive for customers to use.

"Our Telstra Connect app for Enterprise customers enables businesses to self-manage their services directly and digitally. It consolidates more than 50 existing applications into a single digital interface for B2B customers to manage products and services. We have already seen about a one third reduction in calls to Telstra from the one hundred early adopter customers using the service.

"On the Consumer side we completed our first end-to-end fully digital nbn order with an online customer order being handled right through to nbn co without a single manual intervention. As this scales in FY19, we expect to see a significant improvement in customer experience, both in the order process itself and the time taken to activate an order."

Operating performance

The challenging market dynamics created by the nbn rollout and increasing mobile competition continue to have an impact on Telstra's earnings and profit.

Mr Penn said Telstra had absorbed approximately $1.4 billion of the annual approximate $3 billion recurring EBITDA impact of the nbn and this was reflected in the decline of 34.6 per cent in Fixed EBITDA (excluding nbn cost to connect). The flow on impacts to mobile competition, especially the downward pressure on mobile ARPU, was reflected by the decline of 6.3 per cent in Mobile EBITDA.

Key operating results for FY18 include:

- Mobile revenue increased by 0.4 per cent to $10,145 million. Retail customer services increased by 342,000 during the year, bringing the total to 17.7 million. Telstra now has 7.9 million postpaid handheld retail customer services, an increase of 304,000 (including 67,000 from Belong).
- Fixed revenue declined by 9.2 per cent to $5,812 million, impacted by nbn migration, competition and improved 2H18 retail bundle momentum. Retail fixed voice subscriber numbers fell, declining 472,000, while there were 88,000 retail fixed data net subscriber additions including 48,000 from Belong, bringing total retail fixed data customers to 3.6 million.
- Retail bundles continued to perform well with net subscriber additions of 135,000, boosted by data and speed bestowals, and the launch of 'Unlimited Data Bundles' and the new Telstra TV in October 2017. There was improved momentum in 2H18 with 78,000 net subscriber additions compared with 57,000 in 1H18. There are now 3.1 million customers on a bundled plan, or 91 per cent of the retail fixed data customer base.
- We continue to lead the nbn market with a total of 1,946,000 nbn connections, an increase of 770,000. nbn market share is 51 per cent (excluding satellite).
- NAS revenue increased by 8.6 per cent to $3,646 million with double digit growth in Small Business and high single digit growth in Enterprise. There was strong growth in professional services across NAS.

Customer highlights

Telstra's Strategic Net Promoter Score (NPS) was flat during FY18 with positive movement in the second half. Episode NPS, which measures customers' assessments of individual interactions, improved significantly by five points during FY18.

In addition to the improvements being delivered by the Digitisation program, Telstra introduced a number of customer experience improvements and made a number of enterprise acquisitions to boost its NAS and IoT solutions during FY18. Key highlights include:

- Upgraded nbn speeds for more than 850,000 Telstra home and small business customers at no additional cost.
- Launched the Telstra Smart Modem, which connects to the mobile network if the fixed service is yet to be connected or if there is a service interruption. The modem is now being used by 12 per cent of Telstra's fixed data consumer base.
- Significantly improved consumer customers' experience when they connect to the nbn. The NPS score for nbn Consumer orders has seen a 13-point improvement year-on-year at a time when more customers are connecting to the nbn than ever before.
- The Get Help platform has reduced the number of screens contact centre agents have to work through from nine to one, reducing call times by 15 per cent and reduced technician tasks by 60 per cent.

- Implemented robotics across six processes which has significantly improved the speed of customer service. Billing activation for mobile handsets, which used to take three days, now takes less than a minute.
- Opened Telstra's Security Operation Centres in Sydney and Melbourne from which Telstra offers a broad range of services to help government and enterprise customers manage their organisation's cyber security.
- Acquired MTData, a leading provider of GPS and telematics fleet management solutions, to help drive IoT growth in Australia and internationally. MTData delivers solutions that assist customers with compliance and safety, improving productivity and reducing operating costs.
- Acquired VMtech, a leading professional and managed services provider with expertise in the delivery and management of enterprise-grade hybrid cloud, connectivity and security solutions.

Productivity

In June 2018, Telstra announced it would target a further $1 billion annual reduction in underlying core fixed costs by FY22 in addition to the previous stated target of $1.5 billion, meaning underlying core fixed costs will be $2.5 billion per annum lower in FY22 compared with FY16.

Telstra has delivered against these cost ambitions for the year and is ahead of the run rate required to meet its net productivity target with underlying core fixed costs declining by 7.0 per cent or $480 million. However, total reported costs grew including increased:

- nbn™ access payments
- variable costs supporting revenue growth across mobile hardware, NAS and global connectivity
- Go Mobile lease costs
- nbn cost to connect (C2C)
- nbn commercial works and other large NAS projects
- impairments and M&A adjusted for on a guidance basis, partly offset by lower restructuring costs.

Outlook

Telstra's FY19 guidance[3] has not changed from that provided on 20 June 2018 at Telstra's T22 announcement, except to adjust for the impact of the new Australian Accounting Standards Board accounting standard (AASB15). The result of the adjustment is that FY19 income guidance has decreased by $100 million and FY19 EBITDA guidance has increased by $100 million.

In FY19 Telstra expects income in the range of $26.5 to $28.4 billion and EBITDA (excluding restructuring costs) of $8.8 to $9.5 billion. FY19 additional restructuring costs are expected to be around $600 million. FY19 net one off nbn DA receipts less nbn cost to connect are expected to be between $1.8 to $1.9 billion. Capital expenditure is expected to be between $3.9 to $4.4 billion or approximately 16 to 18 per cent of sales, and free cashflow is expected to be in the range of $3.1 to $3.6 billion.

Telstra notes FY19 is a very material year in the migration to the nbn and its impact on Telstra. This guidance is based on Telstra management's best estimates and may need to be adjusted when nbn co releases its Corporate Plan, which is expected on 31 August.

Media contact: Jon Court, +61 (0) 408 423 516
Email: media@team.telstra.com
Investor contact: Ross Moffat, +61 (0) 475 828 700
Email: investor.relations@team.telstra.com
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3 This guidance assumes wholesale product price stability and no impairments to investments or core assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout and migration in FY19 is broadly in accordance with management's current best estimates and may be updated for any material changes, including after taking account of the nbn Corporate Plan 2019 when it is published. The guidance is provided on the basis of AASB15. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex.