14 February 2019

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited – Financial results for the half-year ended 31 December 2018 – Market Release

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

Sue Laver
Company Secretary

Telstra delivers HY19 results in line with guidance, adds mobile services and shows progress against T22

- **Total income, EBITDA and NPAT down year over year in line with the expected nbn impact**
- **More than half of the impact of the nbn now absorbed with approximately 55 per cent of premises connected**
- **Excluding the impact of the nbn, solid performance of the underlying business in the current market**
- **239,000 additional retail postpaid mobile services**
- **Mobile postpaid revenue growth of 2.1 per cent**
- **Underlying fixed costs down $162 million in 1H19, with around $900 million in cost reductions achieved since FY16**
- **Consistent with dividend framework, total interim dividend of 8 cents per share (fully franked)**

Thursday 14 February – Telstra today released its half year results for financial year 2019, which were in line with expectations and showed continued growth in mobile services.

Telstra CEO Andrew Penn said the results showed solid performance in customer numbers and share in the face of intense competition, as well as strong delivery against the T22 strategy. The financial results were impacted by the further rollout of the nbn™ network, with approximately 55 per cent of premises now connected[1].

Total income on a reported basis was $13.8 billion, down 4.1 per cent, EBITDA on a reported basis was $4.3 billion, down 16.4 per cent, and NPAT was $1.2 billion, down 27.4 per cent.

On a guidance basis[2] total income was $13.8 billion and EBITDA (excluding restructuring costs) was $4.7 billion.

Excluding the nbn and in the context of current market dynamics, Telstra's underlying business performed well. During 1H19 Telstra added 239,000 additional retail postpaid mobile services, including 115,000 services on Belong. Telstra Wholesale added 125,000 mobile services that were a mix of prepaid and postpaid. There was also continued positive momentum in IoT with revenue growth of 35.6 per cent. This helped drive revenue from mobile up 2.4 per cent compared to 1H18.

The Board resolved to pay a total fully franked interim dividend of 8 cents per share, comprising an interim ordinary dividend of 5 cents per share and an interim special dividend of 3 cents per share. This is consistent with the dividend policy Telstra announced in August 2017, to pay a fully franked ordinary dividend of between 70 to 90 per cent of underlying earnings[3], and to

[1] Based on number of premises activated in nbn Weekly Progress Report 31 January 2019 and nbn Corporate Plan 2019 estimated total FY22 activated premises
[2] 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 the nbn Corporate Plan 2019. 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. Please refer to the guidance versus reported results reconciliation on page 10 of the Half-year results and operations review. This reconciliation has been reviewed by our auditors.
[3] "underlying earnings" is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 4)

return in the order of 75 per cent of future net one-off nbn receipts[4] to shareholders over time via fully franked special dividends.

"While today's financial results show parts of our business continue to face short-term challenges, there are positive signs particularly with the significant increase in retail postpaid mobile services," said Telstra CEO Andrew Penn.

"Importantly, we remain very positive about Telstra's prospects for the future. Demand for telco products and services continues to grow and telecommunications infrastructure is only going to increase in importance over the next decade. With the onset of 5G, we expect to see positive ARPU influences across the industry from uptake and new services as we have with other new Gs. We also hope there will be some improvement in nbn wholesale prices.

"Telstra's circumstances today are very different from what they were before the nbn. We are no longer the national wholesale provider. That part of our business – the revenue and value – is being transferred to the nbn and that is reflected in our income, profit, and dividends.

"The anticipated impact of the nbn is why we announced our T22 strategy in June last year, enabled by our substantial $3 billion investment announced in 2016 to digitise the business and invest in networks for the future. These announcements were about preparing for the changing market dynamics and customer expectations."

T22 strategy

Mr Penn said Telstra's T22 strategy was enabling the business to take advantage of future opportunities, building on the investment in networks and digitisation announced in 2016.

"T22 is designed to accelerate our rate of change, leverage the investments we have been making and lift our level of aspiration in delivering simpler, more flexible products and services with a great digital service experience for our customers and leaving our legacy behind.

"T22 is about simplifying the business and reducing our cost base for the future. It is about maximising the value of our infrastructure assets. It is about positioning us for the 2020's and beyond and taking advantage of the significant opportunities coming around the corner from growing demand, technology change and the arrival of 5G.

"T22 is one of the most ambitious transformation projects currently being undertaken amongst telecommunications companies globally."

Mr Penn highlighted some of the significant benefits T22 has already delivered for Telstra customers.

"Almost half a million Telstra mobile customers are now enjoying the benefits of the Peace of Mind data plans we launched in July. For those customers this has removed one of the biggest pain points - fear of excess data charges.

"Telstra's small business customers are benefiting from new bundles launched in October and Telstra Platinum for Business, a new prioritised IT and support solution, launched in November. These new solutions provide flexibility for businesses to scale and choose what is right for them.

[4] "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.

"A number of our Enterprise customers have been enjoying our Connected Workplace product since August. This delivers unlimited voice and video, collaboration through Instant Messenger, internet data, a managed private network and internet protection on one simple bill. All this is being delivered via our new Enterprise IT stack.

"Improvements that we have made to our 24x7 App, our Codi virtual assistant and other digital experiences have also helped lower incoming calls to our contact centres, with around 14 million calls answered so far this financial year, a reduction of more than 20 per cent compared to the same period last year.

"Telstra InfraCo is now up and running and segment reporting is included in the financial accounts we have released today. High-level SLA's detailing the key asset and services provided by Telstra InfraCo have also been developed and Telstra InfraCo is on track to be fully operational by the end of this financial year.

"T22 is built on the foundation of our up to $3 billion strategic investment program which is creating the networks for the future and digitising our business. $2.6 billion has been invested so far and the program will be largely complete by the end of FY19. We are on track to realise the financial benefits of the program, with $212 million of EBITDA benefits delivered to date."

Maintaining customer momentum and 5G

The growth in Telstra's mobile business came as the company continued the rollout of its world-leading 5G technology, successfully completed tests in real-world conditions, developed exclusive partnerships with device manufacturers, and put technology in customers' hands.

"Telstra is 5G-ready now," Mr Penn said.

"Thanks to our new partnership arrangements with a series of leading manufacturers, 5G devices will be available exclusively through Telstra before any other Australian mobile operator when they are released in the first half of calendar year 2019.

"Telstra's global leadership on 5G will help ensure mobile is the engine room of our business into the future."

In the fixed-line market, during the half 64,000 net retail bundle and data services were added, including 22,000 from Belong. 308,000 nbn connections were also added during the half, maintaining Telstra's market share of 51 per cent (excluding satellite).

Continuing to reduce costs

Telstra made significant progress reducing costs and remains on track to meet FY19 targets as part of the goal of achieving $2.5 billion net productivity improvement by 2022.

In 1H19 underlying fixed costs were down 4.2 per cent, or $162 million. Nearly $900 million in annualised cost reductions have been achieved since FY16 and we will be accelerating our productivity program in the second half of FY19 and into FY20.

Total costs for FY19, excluding restructuring, are expected to be broadly flat versus FY18 total costs.

Against the stated target of removing 8,000 full-time roles by FY22, 3,200 people have now left the business. This includes more than 1,500 management and executive roles. The cost reductions of this workforce change are expected to flow into 2H19 and FY20.

"This for me is by far the hardest aspect of the changes we have to make. I feel deeply when people are impacted personally and I am committed to both be transparent with our teams on what this means and to provide all the support we possibly can for people affected," Mr Penn said.

On track for FY19 guidance

Telstra today reconfirmed FY19 guidance[5] consistent with its September 2018 announcement. In FY19 Telstra expects total income of $26.2 - $28.1 billion and EBITDA (excluding restructuring costs) of $8.7 to 9.4 billion.

$1.5 to $1.7 billion of EBITDA is expected to come from net one-off nbn Definitive Agreement receipts less nbn net cost to connect. Capital expenditure is expected to be between $3.9 and $4.4 billion. Free cashflow is expected to be between $3.1 and 3.6 billion.

Free cashflow is expected to be at the lower end of the guidance range for two main reasons: cash capex will increase as we take advantage of opportunities in the enterprise and wholesale fibre markets and cash redundancies will be higher as we accelerate productivity.

"This has been a challenging time as we continue to see increasing competition in the mobile market and Telstra feels the unique impact of the transition to the nbn," Mr Penn said.

"As previously stated in our disclosures and guidance, we expect to see these factors continue to weigh on our revenue over the short term.

"Despite these short-term challenges, I am positive about Telstra's prospects for the future and the resulting benefits for our customers and shareholders."

Financial highlights	**1H18 (restated[6])**	**1H19**	**CHANGE (reported basis)**	**CHANGE (guidance basis[7])**	**CHANGE (underlying basis[8] [9])**
Total income (excluding finance income)	$14.4b	$13.8b	-4.1%	-3.9%	-1.8%
EBITDA	$5.1b	$4.3b	-16.4%	-15.1%	-11.2%
NPAT	$1.7b	$1.2b	-27.4%		
Basic earnings per share (cents)	14.4	10.4	-27.8*		

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[5] See footnote 2
[6] Comparatives from FY18 have been restated where applicable as a result of the adoption of AASB 15. The Summary Statement of Financial Position comparative date is restated as at 1 July 2018 as the adoption of AASB 9 impacts opening balances only. For further detail refer to note 1.4 'Adoption of the new accounting standards' in the Half-year financial report.
[7] See footnote 2
[8] See footnote 3
[9] Refer to page 10 of the Half Year results and operations review – guidance versus reported results reconciliation.

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