17 August 2017

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 8600 9800

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 FY17

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

Damien Coleman
Company Secretary

MARKET RELEASE

Telstra announces financial results for FY17

Highlights:

- **On a reported basis from continuing operations:**
  - **Total income[1] increased 4.3 per cent to $28.2 billion**
  - **EBITDA increased 2.0 per cent to $10.7 billion**
  - **Basic earnings per share increased 2.8 per cent to 32.5 cents**
- **On a guidance[2] basis:**
  - **Total income[1] increased 4.3 per cent to $28.2 billion**
  - **EBITDA increased 4.5 per cent to $11.2 billion**
  - **Free cash flow was $4.3 billion**
- **Net Profit After Tax (NPAT) from continuing operations increased 1.1 per cent to $3.9 billion**
- **NPAT from continuing and discontinuing operations decreased 33.8 per cent to $3.9 billion (due to $1.8 billion from the sale of Autohome shares included in FY16 NPAT)**
- **Underlying core fixed costs reduced by 3.5 per cent or $244 million**
- **Final dividend of 15.5 cents per share taking total dividend for FY17 to 31.0 cents per share**
- **Added 218,000 domestic retail mobile customer services and 132,000 domestic retail fixed broadband customers**
- **nbn connections grew by 676,000 to 1,176,000 bringing total market share (excluding satellite) to 52 per cent**

Thursday 17 August 2017 –Telstra today released its full year results for financial year 2017, confirming it had met guidance, and announced the outcomes of the capital allocation review it commenced in November 2016.

The outcomes of the capital allocation review include a change to Telstra's dividend policy[3] to reduce the payout ratio to 70 – 90 per cent of Telstra's underlying earnings[4] and to return in the order of 75 per cent of net one-off nbn receipts[5] to shareholders over time via fully-franked special dividends; a new capital management framework; and plans to monetise a portion of locked-in recurring nbn receipts (see separate market release for details).

The Board announced a fully franked final dividend of 15.5 cents per share, bringing the total dividend for the financial year to 31.0 cents per share.[6] Combined with the $1.5 billion on and off market share buy-backs completed during the year Telstra returned $5.2 billion to shareholders in FY17.

On a guidance basis Telstra increased Total Income by 4.3 per cent and EBITDA by 4.5 per cent. Excluding the proceeds from the FY16 sale of Autohome NPAT increased 1.1 per cent on a reported basis from continuing operations.

Telstra CEO Andrew Penn said 2017 had been a strong year and he was pleased to have delivered against the company's guidance and strategy in the context of a highly competitive and dynamic market.

"We are seeing new entrants into both mobile and fixed as well as pricing pressure in all sectors through price reductions, value enhancements and increased data allowances," Mr Penn said.

"Digital disruption is continuing to accelerate, not just for us but also for our customers, and we are entering a significant point in the transformation of the telecommunications market with the nbn rollout reaching scale.

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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 in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excluded externally funded capex. Guidance excluded the Ooyala impairment in FY16 and restructuring costs in FY17.

3 Return subject to no unexpected material events, assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2017 and receipt of associated one-offs, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.

4 "underlying earnings" is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 4 below).

5 "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.

6 For the reasons explained in the separate market release on our capital allocation strategy review, Telstra has suspended the Dividend Reinvestment Plan. Our intention is to reinstate it when circumstances allow.

“We reported in May 2016 that the expected negative effect of the nbn rollout on Telstra’s EBITDA would be in the range of $2 – 3 billion.

“Given the latest outlook of nbn CVC charges, which we estimate will more than double over the coming years, we now expect the impact is likely to be at the top end of this range, around $3 billion.

“These dynamics confirm why we believe our vision is the right vision, why our strategy is the right strategy. However, they also confirm why we must increase the speed of our transformation.

“It is against the backdrop of these market dynamics that we announced during the year our intention to invest up to $3 billion over the next three years to achieve a further step change in our strategic positioning to deliver economic benefits of more than $500 million of EBITDA by 2021. This is in addition to our usual capital spend and takes our expected total capital investment including spectrum over the three years to FY2019 to more than $15 billion.

“To date we have focused the program predominantly on the network and have invested $750 million since November.”

Key highlights of this investment to date include:

- Doubled the download speed capability of standard 4G for 89 per cent of the population;
- Prepared for 5G trials early in 2018;
- Shutdown the 2G network and re-farmed the spectrum;
- Introduced the Nextgen Operational Support System, which means the network is increasingly able to self-diagnose problems and self-heal;
- Rolling out Cat M1 capability across the 4G coverage footprint, which will soon enable a coverage footprint of around three million square kilometres for compatible Cat M1 devices, opening the country for key IoT development;
- More than 80 per cent of ADSL customers now have speeds that support a quality video experience;
- Launched the Telstra Programmable Network – bringing together SDN and NFV capabilities, cloud technology and data centres; and
- Commenced the rollout of the next generation optical fibre transmission network.

Mr Penn said as a result of the changing dynamics in the market and to build on Belong’s success in attracting new fixed broadband customers, Telstra would soon launch Belong mobile in the price sensitive segment of the market.

“We will be providing more details shortly but we are excited about the opportunities available for Belong Mobile and believe it will be as successful as Belong in fixed,” Mr Penn said.

Delivering brilliant customer experiences

Mr Penn said Telstra’s highest priority remained improving the customer experience and was pleased with progress made in the second half of the year.

“Both strategic and episode NPS recovered strongly in the second half, improving 6 points and 2 points respectively, however we recognise there remains more to be done,” Mr Penn said.

“We had a number of important product launches that build on the speed and capacity of our networks. We are seeing significant traction with retail customers for the Netgear Nighthawk M1 mobile device, which remains one of the fastest devices in the world, and we have also launched our market leading Frontier modem, providing an integrated fixed and mobile capability for home fixed broadband customers.

“In media, Telstra TV has now reached almost one million customers with very high NPS and strong activation and usage rates, and we will shortly launch the Telstra TV2, providing customers the unique experience of being able to ubiquitously search free to air TV, catch up TV and streaming services.

“Similarly our sports apps now have 1.45 million users, providing a significant value component to all of our mobile plans.

“Access to the best content is critically important to us as demand for media continues to grow. At the same time the media market is changing with new participants and increased competition. We remain committed to Foxtel and we continue discussions with our partner News Corp regarding the best arrangements and structure to support Foxtel's success into the future,” Mr Penn said.

Drive value and growth from the core

Telstra saw continued growth across key segments, with retail mobile net adds of 218,000, including 169,000 postpaid handheld net adds, and 132,000 domestic retail fixed broadband customers. nbn connections grew by 676,000 to 1,176,000 bringing total market share to 52 per cent (ex-satellite) and retail bundles continued to perform well, with 224,000 adds on the back of the popular 'Best Bundle Ever' and 'Hottest Entertainment Bundle'.

Mr Penn said mobiles had performed strongly with a modest increase in mobile services revenues in the second half, a reduction in post-paid handheld churn, and mobiles EBITDA margin for the year had remained strong at 43 per cent.

"We further extended our mobile network during the year with over 2,200 mobile sites either built or upgraded to 4GX and our 4G coverage was extended to 99 per cent of the population," Mr Penn said.

This included building 174 new mobile sites and more than 100 4G small cells for new coverage in small regional and remote communities under the Mobile Black Spot Program (co-funded by Federal and State governments).

The Telstra Air Network® now has more than 1.1 million hotspots, with the number of activated customers on Telstra Air increasing to more than two million.

Telstra delivered revenue growth in excess of 30 per cent from Network Applications and Services on the back of major contract wins and strong performances from nbn commercial works, managed network services, unified communications and Cloud.

"Importantly we also delivered against our improvement target in the EBITDA margin for Network Applications and Services of 3 per cent," Mr Penn said.

Build new growth businesses close to the core

Telstra has implemented a number of initiatives which are aimed at lifting the level of innovation and to drive growth close to the core.

Mr Penn said Telstra had made significant investments in its core infrastructure assets including Pacnet and other subsea cable investments.

"We have also made significant acquisitions in applications and services such as Company85 and Cognevo this year, and Kloud and Readify last financial year," Mr Penn said.

"In cyber-security we already have more than 500 cyber security experts and we will shortly be opening our new security operation centres in Melbourne and Sydney with others to follow internationally.

"We have launched Telstra Labs, including software and hardware labs, Australia's first open IoT lab, a 3D printing lab and collaboration areas for our partners and customers.

"Since inception, Telstra Ventures has invested more than $300 million in 45 technology start-ups. muru-D, our accelerator, has helped launch 77 new start-ups," he said.

Productivity

In FY17 Telstra reduced its underlying fixed costs by $244 million, consistent with its announcement in November 2016 that it would achieve at least $1 billion in productivity by FY21.

Today Mr Penn said Telstra had met its productivity targets to date and would now accelerate its efforts to reduce costs even further over the next five years.

"Today we are announcing we will do more and we will do it faster. We intend to bring forward our previously communicated $1 billion net productivity target by one year to FY20," he said.

"We have increased our target by a further $500 million in cost savings and we plan to deliver more than $1.5 billion in net productivity by FY22.

"As previously advised, we expect the benefits to accrue roughly equally over the life of the program."

Outlook

In FY18 Telstra expects Income in the range of $28.3 – $30.2 billion and EBITDA of $10.7 – $11.2 billion. Guidance for EBITDA is after absorbing incremental restructuring costs of $200 – $300 million to support our increased productivity. $2 – $2.5 billion of this 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 $4.4 – $4.8 billion or approximately 18 per cent capex to sales and free cashflow is expected to be in the range of $4.4 – $4.9 billion.

Telstra expects total dividends in respect of FY18 to be 22 cents per share fully-franked, including both ordinary and special dividends.[7]

This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn rollout is broadly in accordance with the nbn™ Corporate Plan 2017. Capex excludes externally funded capex.

Media contact: Jon Court, +61 (0) 408 423 516
Email: media@team.telstra.com
Investor contact: Peter Kopanidis, +61 (0) 412 171 673
Email: investor.relations@team.telstra.com
Ref number: 90/2017

7 Return subject to no unexpected material events, assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2017 and receipt of associated one-offs, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.