14 May 2018

The Manager

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

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 03 8647 4838
Facsimile 03 8600 9800

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Market Update and CEO Speech

In accordance with the Listing Rules, I attach for release to the market:

- Market update;
- Presentation by Andrew Penn, CEO, Telstra at the 46th Annual JP Morgan Global Technology, Media and Communications Conference, Boston, MA, 15- 17 May 2018.

Yours faithfully

Sue Laver
Company Secretary

MARKET RELEASE

Telstra issues trading update

Monday 14 May 2018 – Telstra today provided an update on trading for FY18 based on its year to date results to April 2018.

Telstra has re-affirmed guidance consistent with its FY18 guidance[1]. However, EBITDA is expected to be at the bottom end of the range and free cashflow is expected to be at the top end to moderately above.

Telstra CEO Andrew Penn will be presenting to the JPMorgan TMT Equity Conference in Boston tomorrow on progress against the company's strategy. Mr Penn will include in his presentation a trading update. A copy of that speech is being lodged with the ASX, accompanying this market update.

Despite strong progress against Telstra's strategy, growth in subscriber numbers in both fixed and mobile and increasing demand for telecommunications products and services, the industry is facing competitive dynamics that have led to increasing pressure on both fixed and mobile margins.

The challenging trading conditions in FY18 are expected to continue in FY19, including ongoing pressure on mobile and fixed ARPUs and the accelerating impact of the nbn.

Telstra will provide a further update to the market in the second half of June regarding additional strategies it is implementing to address these pressures, leveraging the investments already made as part of its strategic investment plan.

For Q3 results, in fixed Telstra is pleased with retail fixed data net adds (3Q FY18 +36,000) and with nbn market share at the end of March of 50%. However, bundle minimum monthly commitment is challenged (3Q FY18 -2.4% on PCP) due to price competition and the ongoing negative nbn impact on underlying earnings.

In mobiles, good momentum on postpaid handheld subscribers (3Q FY18 +60,000) has been offset by declines across postpaid handheld ARPU (3Q FY18 -3.6% on PCP), prepaid handheld revenue and mobile broadband revenue. Mobile EBITDA is expected to decline against PCP in FY18 due to these reductions.

	1H FY18	PCP growth	3Q FY18	PCP growth
Postpaid handheld ARPU ex. MRO	$65.92	-2.9%	$65.35	-3.6%
Postpaid handheld net adds	+130,000	+43,000	+60,000	+15,000
Fixed data net adds - retail	+21,000	-69,000	+36,000	+1,000

Based on the above trends, Telstra expects its FY18 results to be in the following ranges:

- Income is expected around the middle of the $27.6 - $29.5 billion range
- EBITDA is expected at the bottom end of the $10.1 - $10.6 billion range
- Net one-off nbn DA receipts less nbn net C2C[2] is expected at the mid to upper end of the $1.4 - $1.9 billion range
- Capex is expected at the mid to upper end of the $4.4 - $4.8 billion range
- Free cashflow is expected at the top end or moderately above the $4.2 - $4.7 billion range

Telstra continues to focus on reducing costs and expects FY18 underlying core fixed costs to decline approximately 7%. Telstra is expected to incur incremental restructuring costs of approximately $300m in FY18 in line with guidance of $200 – $300 million.

[1] 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 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017. Capex excludes externally funded capex.

[2] "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

Telstra also reaffirmed it expects its FY18 total dividend to be 22 cents per share fully franked including ordinary and special, in accordance with its dividend policy announced in August 2017[3] and its capital management framework.

Media contact: Jon Court, +61 (0) 408 423 516
Email: media@team.telstra.com
Investor contact: Nathan Burley, +61 (0) 457 529 334
Email: investor.relations@team.telstra.com
Ref number: 061/2018

[3] Return subject to no unexpected material events, assumes the nbn rollout is 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 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.

JP Morgan TMT Conference
Boston - 14 May 2018
CEO Speaker Notes

Introduction (5 mins):

Good morning.

Thank you Eric and JP Morgan for hosting this conference.

This is a critical time for the global telecommunications industry. Demand for our core products and services has never been greater. We are seeing data volumes increase 50% per annum across both fixed and mobile networks and the range of services supported by our networks increase dramatically. Telecommunications is rapidly becoming the backbone of many industries and the dependence on connectivity and the always on society is here to stay.

On top of this, as an industry we are in a transition to the next generation of technology as we move to software defined networks, network function virtualisation and 5G. This is not just about another G for mobility - SDN/NFV and 5G in conjunction with data analytics, AI and the whole world of the internet of things means this technology transition will be more profound than any we have seen before in telecommunications. It presents new opportunities for telcos but with the capex demands to match. The crucial question for the sector is how the telcos capture a bigger share of the economic value that will be generated by 5G than we did with 4G.

Recognising this dynamic we need to build new skills in new areas and that is what we have been doing at Telstra. We intend to lead the next generation of telecommunications technology as we have always done in the past. Firstly to ensure we deliver our customers the best network experience in Australia and secondly to put us in a stronger position to take advantage of the value opportunities above the layer of the network such as we have already successfully done in NAS.

This is what sits behind our vision to become a world class technology company that empowers people to connect. This is not about moving away from being a telco, quite the opposite – it is about recognising what a telco of the future needs to be.

It is against this background that we have been investing for the future. In 2016, we announced that we would invest up to $3b of incremental capex to achieve a material step change in our strategic position in anticipation of these changes. Since then we have deployed about half of that capex in the networks of the future and digitising the business.

In networks these investments are supporting our mobile differentiation, coverage, speed and resiliency. We have built both CATM1 and Narrowband IoT platforms, we have upgraded our core backbone infrastructure to support 5 times the data volumes by 2020, we have improved the video experience and now lead the Netflix speed rankings in Australia and we have built our Next Generation OSS platform which delivers real time customer experience monitoring and impact assessment and recovery capability.

We have also gained some quick wins from our digitisation investments leading to solid progress in episode NPS. In addition we have already gone live with our new integrated technology stack for the Enterprise business enabling new product innovations such as the Telstra Programmable Network enabling customers to dynamically manage their network capacity and Liberate – our digitally enabled unified comms suite converging fixed and mobile for businesses. We are also well progressed with a completely new technology stack for mass market consumer and small business that will be launched in the second half of the calendar year.

So I remain very optimistic about the long term for the industry and for Telstra and we have been making the right investments now to ensure we continue to lead as we transition into it.

However, notwithstanding this progress and my optimism for the future I am in equal measure concerned about the short term. The National Broadband Network (nbn) in particular has driven a number of challenging dynamics for the industry that collectively point to a difficult trading period ahead.

Unique to Australia the nbn was born out of a policy where the government is essentially re-nationalising the fixed access last mile of infrastructure from Telstra to become the nation's wholesale provider for fixed broadband and we, Telstra, have become a reseller of broadband services with the other operators. This is having a very material impact on the economics of the whole industry and has triggered a step change in the competitive environment. In the last 12 months alone we have moved from three big players in Mobile and fixed to a situation today where we face a 4^{th} network operator entrant in mobile, an increasing number of MVNOs and more than 170 resellers of fixed.

We are responding to these dynamics to protect and grow our customer base. We have bestowed unlimited data to almost half our fixed broadband base and we recently launched an unlimited domestic data plan on mobile. We are the first to do so above the line in Australia, offering 40Gb of mobile data with uncapped speeds and 1.5Mbps capped speeds thereafter. Learning from the experience here in the US, better to be first than late.

We have improved our media offerings adding Foxtel Now and the FFA (Australian soccer) to our existing line up of AFL, NRL and Netball and we have now sold over 1m Telstra TVs. We have also restructured our investment in Foxtel combining Foxtel and FoxSports which gives Telstra the rights as the exclusive agent in the telco category to sell their mobile and IP based content.

We are also improving the in home experience for our customers guaranteeing a minimum of 80% of maximum line speeds on our nbn plans. We have added the Telstra Smart Home to our range and expect to have more than half a million smart modems in homes by the end of the financial year.

Understandably though these dynamics in conjunction with the continued roll out of the nbn are having an impact on margins. Yesterday we provided a trading update to the market which while within previous guidance ranges for 2018, highlighted the difficult trading environment and foreshadowed this trending into 2019.

Since the half year results we have achieved strong SIO momentum in fixed with retail fixed data net adds of 36,000 in the third quarter and nbn market share of 50%. However, retail fixed bundle Minimum Monthly Commitment (MMC) is challenged down 2.4%. We also continue to experience the ongoing negative nbn impact on underlying earnings.

In mobile, EBITDA is expected to decline this financial year due to postpaid handheld ARPU ex MRO, which declined by 3.6% to $65.35 compared to the third quarter last year, as the result of prepaid handheld revenue and mobile broadband revenue reductions. These have been partly offset by continued good momentum on postpaid handheld subscribers with net adds of 60,000 in the third quarter.

As a result, we now expect FY18 EBITDA to be at the bottom end of FY18 guidance[1] and the challenging trading conditions in FY18 to continue in FY19, including pressure on mobile and fixed ARPUs and the accelerating impact of the nbn.

Based on April year to date results and 2H FY18 current expectations, Telstra's current outlook against FY18 guidance[1] is as follows:

- Income is expected around the middle of the $27.6 - $29.5 billion range
- EBITDA is expected at the bottom end of the $10.1 - $10.6 billion range
- Net one-off nbn DA receipts less nbn net C2C[2] is expected at the mid to upper end of the $1.4 - $1.9 billion range
- Capex is expected at the mid to upper end of $4.4 - $4.8 billion range
- Free cashflow is expected at the top end or moderately above the $4.2 - $4.7 billion range

Importantly we continue to focus on reducing costs and expect FY18 underlying core fixed costs to decline approximately 7%. We expect to incur incremental restructuring costs of approximately $300 million in FY18 versus our previous guidance of $200 – $300 million.

I can also confirm we expect the FY18 total dividend to be 22 cents per share fully franked including ordinary and special. This is in accordance with our dividend policy announced in August 2017[3] and our capital management framework.

[1] 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 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017. Capex excludes externally funded capex.

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[3] Return subject to no unexpected material events, assumes the nbn rollout is 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 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.

So in summary we face challenges in the near term in a very dynamic market. However, we remain optimistic about the long-term future of the industry and for Telstra. We continue to see strong demand for our services and increased growth in data volumes as connectivity becomes more important. We have made significant investments which are already delivering benefits and provide us with the platform to support a range of new initiates we will be launching. We will provide the market a briefing on these in the second half of June.