11 August 2016

**Office of the Company Secretary**

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

The Manager

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

**ELECTRONIC LODGEMENT**

Dear Sir or Madam

## Telstra releases 2016 financial results, announces $1.5 billion share buy-backs

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 releases 2016 financial results, announces $1.5 billion share buy-backs

- **On a reported basis from continuing operations, total income [1] increased 3.6 per cent to $27.1 billion and EBITDA decreased 0.6 per cent to $10.5 billion**
- **On a guidance [2] basis, total income [1] increased 6.3 per cent to $28.3 billion, EBITDA increased 2.6 per cent to $11.0 billion and free cash flow was $4.8 billion**
- **Net profit after tax increased 35.9 per cent to $5.8 billion, including $1.8 billion from the sale of Autohome shares. Earnings per share increased 37.4 per cent to 47.4 cents**
- **Final dividend of 15.5 cents per share taking total dividend for FY16 to 31.0 cents per share**
- **Up to an extra $3 billion invested over next three years on networks of the future and digitisation to drive improvements in customer experiences**
- **Impairment of Ooyala intelligent video subsidiary of $246 million**
- **Added 560,000 domestic retail mobile customer services and 235,000 domestic retail fixed broadband customers**

**Thursday 11 August 2016** –Telstra today released its full year results for financial year 2016, confirming it had met guidance, and that it would return $1.5 billion to shareholders through share buy-backs in addition to the final dividend.

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, up 1.6 per cent on the prior year, distributing $3.8 billion to shareholders.

In a separate announcement, Telstra confirmed it would invest up to an extra $3 billion over the next three years in a major wave of customer-focused investments in its networks of the future and digitisation.

Telstra CEO Andrew Penn said Telstra had performed well and added new customers across its key products. He said the results had been influenced by increasing competition, the changing product mix of earnings and acceleration in the rollout of the nbn™ network.

“Telstra has delivered another solid result for shareholders, growing revenue and EBITDA on a guidance basis, adding new customers and again providing consistent shareholder returns,” Mr Penn said.

“There is no doubt that competitive intensity has increased across our segments and products. The rollout of nbn has progressed and the pace of technology innovation has continued to accelerate. This highlights the importance of our vision to become a world class technology company and our continued efforts to improve customer advocacy, drive value and growth from our core businesses and build new growth businesses.”

### Improving customer advocacy

Mr Penn said while Telstra performed well and added new customers, it had not made enough progress on improving customer experiences.

“Work still needs to be done to improve our systems and processes that can cause customer frustration and delay, and to ensure that we consistently deliver a great service experience,” he said.

“We know that customers expect more from us as their reliance on smart devices continues to grow. This is why improving the customer experience is paramount, and why network interruptions in the second half were particularly disappointing.

“As a result of these factors our overall NPS score decreased by four points year on year, although we improved advocacy with enterprise, government, wholesale and managed business customers. We continue to simplify the business and recognise the things which can frustrate customers about our products and service are often the same things adding cost to our business.”

### Driving value and growth from the core

In this highly competitive environment, domestic retail mobile customer services increased by 560,000 to a total of 17.2 million services. Mobile revenue impacts included regulatory changes to voice and SMS terminating charges as well as lower international roaming charges.

[1] Excluding finance income.
[2] This guidance assumed wholesale product price stability from the beginning of the financial year and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.

Fixed revenue fell largely due to continued decline in the number of fixed voice services and impact of regulatory changes. The rate of fixed voice revenue decline was broadly maintained due to successful retention activities such as bundles. The number of customers on bundled plans increased by 322,000 to 83 per cent of the retail fixed data customer base.

Fixed data partially offset the decline in voice, with domestic retail subscriber numbers increasing by 235,000, the highest net adds in more than five years, bringing the customer total to 3.4 million. Demand for nbn services through Telstra continued, with connections growing by 289,000 to 500,000.

Mr Penn said Telstra's core business was built around its networks which had received significant investment over the past year.

"During the year we upgraded 2,375 network sites to 4GX and achieved 98 per cent population coverage with 4G. We are on track to reach 99 per cent coverage by June 2017. Overall, we invested $4.0 billion in capital expenditure including our fixed and mobile networks and other works," he said.

"Following network disruptions in the second half of FY16, we continue to implement recommendations from our core network and IT system review, addressing sources of potential risk and building network durability and capability. This includes $250 million from our existing capital program over the next six to 12 months to provide a higher degree of network resilience and improved network performance in the mobile and ADSL broadband networks.

"We are investing so our network performance exceeds our customers' expectations and we continue to plan for the network of the future, where our customers will be even more connected with more devices and services taking advantage of what our networks will offer.

"Our expertise in network build and maintenance has led to agreements with nbn co for additional work including a $1.6 billion contract to provide planning, design, construction and construction management services within the Telstra HFC footprint. The works are due to continue until the end of the nbn™ network build, which is expected to be in 2020."

**Building new growth businesses**

Telstra's Global Enterprise & Services business income grew 11.5 per cent, with its Network Applications and Services (NAS) business continuing to perform strongly. This includes the acquisition of Pacnet in the second half of financial year 2015.

"Our NAS business grew by 14.3 per cent and increased profitability, continuing the double digit growth of the past few years. NAS generated annual revenues in excess of $2.7 billion in FY16," Mr Penn said.

"We have also made good progress in our growth businesses and internationally. The successful integration of the Pacnet business over the past 15 months means Telstra has emerged as a leader in international connectivity, with the largest submarine cable network in Asia.

"Our joint ventures in China (Telstra PBS) and Indonesia (telkomtelstra) enjoyed increased demand for services and help to build Telstra's footprint in two of the world's largest and fastest growing technology markets. Our Telstra Health business is one of Australia's leading providers of eHealth solutions, and in May was selected by the Commonwealth Department of Health to deliver the National Cancer Screening Register under a five year contract."

**Productivity**

Mr Penn said Telstra was on track with its productivity program, with a continued focus on fixed costs.

"With our customers at the heart of everything we do, our renewed focus on productivity means we are improving and simplifying processes to provide better customer experiences and cost benefits to our business," he said.

"We delivered on our productivity program and reduced fixed costs on a year on year basis, but there is still a lot of work to be done. Adjusting for significant transactions and events, fixed costs were down 0.6 per cent for the year."

Reported operating expenses increased 6.4 per cent to $16.6 billion, including a $246 million Ooyala Holding Group impairment reflecting changing dynamics in the intelligent video market and business performance.

Operating expense increases were largely from new growth businesses, and sales costs directly associated with revenue and customer growth in core businesses.

**Capital and portfolio management**

Telstra's capital management strategy continues to be underpinned by a clear focus on maximising returns to shareholders, maintaining financial strength and retaining financial flexibility. Mr Penn said during the year Telstra announced the sale of its majority stake in Autohome, believing the time was right for it to realise significant value for its shareholders. The profit on sale of Autohome shares was approximately $1.8 billion.

"Autohome was a very successful investment for us and we are proud of the role we played in its growth since we first invested in 2008. We retain a 6.5 per cent interest and a board position in Autohome," he said.

The Dividend Reinvestment Plan (DRP) continues to operate for the FY16 final dividend. Shareholders have until 26 August 2016 to lodge their election to participate in the DRP.

Telstra also announced it would return up to approximately $1.5 billion of capital to shareholders, comprising a $1.25 billion off-market share buy-back and $250 million on-market share buy-back. These are expected to be funded from Telstra's surplus cash and accumulated profits including the recent sale of Autohome shares.

Mr Penn said the off-market share buy-back component of the capital management program would be conducted through a tender process and would be followed by the on-market share buy-back. The terms and conditions of the off-market buy-back will be set out in a booklet to be distributed to eligible shareholders[3] by 2 September 2016.

**Outlook**

In FY17 Telstra expects to deliver mid to high-single digit income growth and low to mid-single digit EBITDA growth. Free cashflow is expected to be between $3.5 billion and $4.0 billion and capital expenditure to be approximately 18 per cent of sales. 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 in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excludes externally funded capex. Guidance excludes the Ooyala impairment in FY16 and restructuring costs in FY17 of $300 million to $500 million.

*Note:* In June 2016, Telstra sold shares in Autohome, the Chinese online car sales business. As a result, Autohome was classified as a discontinued operation and Autohome trading results excluded from reported income and EBITDA results. Telstra's FY16 results were also impacted by ACCC Final Access Determinations which came into effect during the financial year across Fixed Services, Mobile Terminating Access Service and Domestic Transmission Capacity Service. Telstra's results on a guidance basis included Autohome trading results and excluded wholesale price impacts from Final Access Determinations. Telstra completed the acquisition of Pacnet in April 2015. Excluding Pacnet trading results from Telstra's guidance demonstrates the performance of Telstra's underlying business.

| FY16 | Total income[1] | EBITDA | Comment |
|---|---|---|---|
| **Reported results** | $27.1b up 3.6% | $10.5b down 0.6% | Reported results excluded Autohome trading results. FY15 comparison included Pacnet trading results from April 15 to June 15. |
| **Guidance basis[2]** | $28.3b up 6.3% | $11.0b up 2.6% | Autohome trading results included for guidance. Guidance excluded FY16 M&A, spectrum and wholesale price impacts from Final Access Determinations. |
| **Guidance basis excluding Pacnet** | $27.8b up 4.8% | $11.0b up 2.1% | Adjusting for Pacnet trading results in FY16 of $503m (FY15 $99m) and EBITDA in FY16 of $70m (FY15 $15m). |

[1] Excluding finance income.
[2] This guidance assumed wholesale product price stability from the beginning of the financial year and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.
[3] Neither the off-market buy-back nor the subsequent on-market buy-back will be made directly or indirectly in or into the United States.

**Media contact:** Nicole McKechnie, +61 (0) 429 004617
**Email:** media@team.telstra.com
**Investor contact:** Peter Kopanidis, +61 (0) 412 171673
**Email:** investor.relations@team.telstra.com
**Ref number:** 100/2016