



11 August 2016

The Manager

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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Letter to Shareholders including details of retail shareholder information meetings in September 2016**

In accordance with the Listing Rules, I enclose the following Letter to Shareholders, for release to the market.

Yours faithfully

**Damien Coleman**  
Company Secretary

# Letter to shareholders



Andrew Penn (CEO), John Mullen (Chairman)

## Dear Shareholders,

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.

For Telstra, this was a year of considerable progress and we continued to attract new customers across our key products.

Our financial performance in 2016:

- on a reported basis from continuing operations, total income<sup>1</sup> increased 3.6 per cent to \$27.1 billion and EBITDA decreased 0.6 per cent to \$10.5 billion
- on a guidance<sup>2</sup> basis, total income increased 6.3 per cent to \$28.3 billion, EBITDA increased 2.6 per cent to \$11.0 billion and free cashflow 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
- we delivered on our guidance for FY16
- we added 560,000 domestic retail mobile customer services and 235,000 domestic retail fixed broadband customers
- impairment of Ooyala intelligent video subsidiary of \$246 million
- final dividend of 15.5 cents per share taking total dividend for FY16 to 31.0 cents per share, distributing \$3.8 billion to shareholders

- we will return \$1.5 billion to our shareholders through off-market and on-market buy-backs in addition to the FY16 final dividend.

We are pleased to deliver another solid result for shareholders, growing revenue and EBITDA on a guidance basis, adding new customers and again providing consistent shareholder returns.

There is no doubt that competitive intensity has increased across our segments and products. The rollout of **nbn**<sup>™</sup> network 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 deliver on our strategy.

While we performed well in the market and added new customers, we did not make as much progress as we would have liked on improving the experiences our customers have with us. Work still needs to be done to ensure we consistently deliver a great service experience.

Shareholders will also be aware we experienced a series of network interruptions in the second half of the financial year.

Notwithstanding our long track record of leading network performance, these interruptions were disappointing given the impact they had on our customers, something for which we sincerely apologise. We continue to address these issues and are implementing the recommendations from our core network and IT system review, addressing sources of potential risk and building the durability and capability of our network.

Telstra is fiercely proud of its networks and we will continue to invest in providing the network of the future and the best possible experience for our customers.

## Our strategy and vision

Our vision is to become a world class technology company that empowers people to connect. To achieve this we continue to focus on the three key strategic pillars of improving customer advocacy; driving value and growth from our core business; and, building new growth businesses.

We believe this is the right strategy to manage the dynamics of the **nbn**<sup>™</sup> network rollout and increased competition in the market, while also taking advantage of our core strengths and new opportunities arising from technology innovation.

## Improving customer advocacy

Improving customer advocacy remains our most important priority and will continue to be so.

We know 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.

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.

In FY16 we worked on removing some of our obsolete or overly complex legacy processes, systems and practices to make it easier for customers to do business with us. As part of this work, we are leveraging our digital capabilities to simplify and improve our service experience. For example the Telstra 24x7® App now has 2.9 million active users who value being able to access a growing array of services at their convenience, and who are using the app for activities such as keeping track of their usage, locating their nearest store and topping up broadband allowances.

In 2016, we further enhanced the value proposition of our mobile and fixed products with innovative product design and new experiences on our networks including access to media content. For example, we offered unlimited data on the Telstra Air Wi-Fi network until 27 March 2017 and an AFL/NRL content pass for eligible customers for the 2016 season through to 31 January 2017.

We must continue to challenge ourselves to do better, to address the root cause of issues that affect our customers and to nurture our customer relationships every day.

### Driving value and growth from our core business

This year, we continued to drive growth and value from our core businesses. In light of changing market and structural dynamics, we continue to focus on growing customer numbers and usage to effectively monetise the value we provide. The core of our business is built around our networks which received significant investment over the past year.

We have now achieved 98 per cent population coverage with 4G and are on track to reach 99 per cent population coverage by June 2017. Our Telstra Air Wi-Fi network now has over 500,000 hotspots nationally including over 4,500 public hotspots, and over 1.1 million customers activated to use the Telstra Air network.

Overall, we invested \$4.0 billion in capital expenditure including in our fixed and mobile networks and other works.

### Moving our customers to the nbn™ network

Telstra is Australia's leading provider of services on the nbn™ network, with a market share of 50 per cent, and we are seeing strong demand from customers as the rollout scales up. We are also helping nbn co with the rollout of the nbn™ network. Our expertise in network build and maintenance has led to a series of agreements with nbn co for additional work, including a \$1.6 billion contract signed in April to provide planning, design, construction and construction management services within the Telstra HFC footprint until the end of the nbn™ network build, slated for completion in 2020.

## Investing in next generation network leadership, digitisation and customer experience

Our customers and our networks are our biggest assets, which is why we are investing more to set new standards and deliver seamless, excellent experiences for our customers.

We have announced we are committing to invest up to an extra \$3 billion over three years on our networks of the future and digitisation to drive improvements in customer experiences.

This wave of new investment will position us to deliver significant customer benefits and reinforce our market differentiation over the longer-term, as well as deliver business benefits such as capital efficiency, reduced operating costs and increased revenue.

As a result of the investment, our capex to sales ratio<sup>3</sup> in each of the next three financial years will increase to approximately 18 per cent, the highest since 2008-09 as Telstra was building up its 3G network.

There are a number of immediate actions that we believe will improve customer experiences. We will simplify products and platforms – we need to retire old technology and systems that slow down and complicate how customers are served.

A significant proportion of the investment would also go towards transforming the next generation of networks.

### Our mix of earnings is changing

The composition of our earnings is changing in line with the income mix of our products.

Over the year, fixed voice revenue declined as fewer customers made use of landline phone services, while our Network Applications and Services (NAS) revenue grew strongly. Our NAS managed services tend to be lower margin, and this shift had an impact on gross margins and our average underlying percentage EBITDA margin has reduced.

The nbn™ will also have one off and recurring impacts on our earnings. The definitive agreements we have signed with nbn co and the Government partially compensate us for the effect of the nbn™ and for using our ducts, racks and backhaul. However, the impact of the nbn™ goes beyond those agreements, including through transitioning costs and ongoing operational access costs.

Overall, the forecast net effect on our business is a reduction of \$2-3 billion in EBITDA per annum at the conclusion of the nbn™ build. To offset these impacts, we continue to execute on our strategic priorities, and at the same time, we have raised the bar on productivity to reduce our fixed costs, with a focus on digitisation, simplification and getting processes right first time.

### We are creating a fitter, faster Telstra

Our renewed approach to simplifying our business has been focused on our customers. We recognise the things that can frustrate our customers about our products and service are often the same things that add costs to our business.

By finding ways to start less and finish more, improve and simplify our processes, we can deliver better customer experiences as well as cost benefits. We have been working on a number of initiatives to improve service, including through digital channels.

### We are building new growth businesses

Our third strategic pillar, building new growth businesses, is designed to realise opportunities that leverage our core strengths. We are working on innovations that create opportunities and new possibilities, including investments in digital media, eHealth, applications, services and software.

The successful integration of Pacnet over the past 15 months means Telstra has emerged as a leader in international connectivity with the largest submarine cable network in the Asia-Pacific region. Our joint ventures in China (Telstra PBS) and Indonesia (telkomtelstra) both enjoyed strong demand for services this year.

Our NAS business has seen double digit growth each year for the last few years and now generates annual revenues in excess of \$2.7 billion. Our Telstra Health business is now 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.

3. Refer to "Looking ahead" for relevant assumptions.

Due to changing dynamics in the intelligent video market and business performance, we recognised a \$246 million impairment in our video streaming business Ooyala.

This year we announced the sale of most of our stake in Autohome, a very successful investment for Telstra. We are proud of the role we played in its rapid growth since we first invested in 2008. We believe the time was right for us to realise significant value for our shareholders and for Autohome to benefit from a new strategic partner in Ping An Insurance. We retain a 6.5 per cent interest and a board position in Autohome.

### We have a world class team

Our vision to be a world class technology company that empowers people to connect relies on the collective skill of our people. We continue to build a world class team and this year that included a number of key appointments in the Senior Management team.

We are fortunate to have such a deep pool of internal talent as well as being able to attract and recruit some of the best globally accomplished executives from around the world.

We also saw changes at a Board level, farewelling former Chairman Catherine Livingstone AO and two other longstanding Directors Geoffrey Cousins AM and John Zeglis, and welcoming Trae Vassallo and Craig Dunn to the Board. Today we also announced the appointment of experienced director Jane Hemstrich as an independent non-executive Director, with effect from 12 August 2016. Jane will stand for election by shareholders at Telstra's Annual General Meeting in October.

### Delivering on our purpose

Increasingly we are seeing the economic, social and environmental benefits that modern communications technologies are delivering for our customers and the community. While more and more people are getting online, it is clear that some are being left behind. If we are to truly deliver on our purpose and create a brilliant connected future for everyone, we must ensure that everyone can enjoy the benefits of being connected.

This is why we have long invested in building people's digital skills and capabilities. This year we reached more than 59,000 people through our digital literacy training programs, and helped over one million vulnerable customers stay connected.

We are also committed to minimising our environmental impacts and to working with our customers to achieve better environmental outcomes. This year, our total greenhouse gas emissions decreased by two per cent despite data load on our networks increasing by 62 per cent.

This meant we achieved our three year greenhouse gas emissions intensity target a year earlier than planned.

### Capital management

Our capital management strategy continues to be underpinned by a clear focus on maximising returns to shareholders, maintaining financial strength and retaining financial flexibility.

We announced we would return up to approximately \$1.5 billion of capital to shareholders, comprising a \$1.25b off-market share buy-back and \$250m on-market share buy-back.

The buy-backs are expected to be funded from Telstra's surplus cash and accumulated profits (including from the recent sale of Autohome shares).

The Board has determined that the buy-backs are the best way to achieve the objectives of Telstra's capital management framework at this time. The terms and conditions of the off-market buy-back will be set out in a booklet to be distributed to eligible shareholders<sup>4</sup> by 2 September 2016.

### Looking ahead

Today there is virtually no technology innovation that does not fundamentally rely on a network and for that reason we anticipate demand for our services will only continue to grow. We need to be prepared to respond to our customers' expectations, and to work harder on the experience we offer. We have a clear strategy and we are lifting our aspiration for the year ahead to focus on the things that matter: improving the customer experience, driving value and growth from our core and building pathways toward future, sustainable long-term growth.

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.

We are extremely grateful to the Telstra team for their dedication to customers and willingness to embrace change as we transform the company for continuing success. We remain committed to making Telstra not just a better company and a great place to work, but a world class technology company that empowers people to connect; we can think of no more exciting goal for this great company.

### Retail shareholder information meetings

In September, we are pleased to again host a series of retail shareholder information meetings around the country with our senior executives. This year, meetings will be held in Melbourne, Sydney and Brisbane. We are also offering our shareholders in Perth, Adelaide and Canberra to attend a live webcast of the Melbourne and Sydney meetings. Further details can be found in the attached flyer. Our Annual General Meeting will be held on Tuesday 11 October 2016 in Sydney and we look forward to sending you our Notice of Meeting in the coming weeks.

We thank you for your loyalty as a shareholder and welcome your comments and feedback. These can be provided to [investor.relations@team.telstra.com](mailto:investor.relations@team.telstra.com), via phone on 1800 880 679, or in the mail to the Investor Relations Department, Telstra, Level 25, 242 Exhibition Street, Melbourne, VIC 3000.



John P Mullen,  
Chairman



Andrew R Penn,  
CEO and Managing Director

4. 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.



2016

# Telstra Retail Shareholder Information Meetings



Telstra again invites you to participate in one of our retail shareholder information meetings.

## Live Presentations

Date	Time	Location	Presenters
Mon 19 Sep	1.00pm	Sofitel, Grand Ballroom, 25 Collins Street, <b>Melbourne</b>	Andrew Penn, Chief Executive Officer Warwick Bray, Chief Financial Officer
Tue 20 Sep	9.00am	Westin Hotel, Heritage Ballroom, 1 Martin Place, <b>Sydney</b>	Andrew Penn, Chief Executive Officer Warwick Bray, Chief Financial Officer
Wed 21 Sep	10.00am	Pullman Hotel, Lincoln and Roosevelt Rooms, Cnr Ann and Roma Streets, <b>Brisbane</b>	Will Irving, Group Executive - Telstra Wholesale Guy Wylie, Group Managing Director - Strategic Finance

**Our shareholders in Perth and Adelaide will be able to view a live webcast of the Melbourne event. Our shareholders in Canberra will be able to view a live webcast of the Sydney event. Questions will also be taken from these venues.**

## Webcast locations (local time)

Date	Time	Location
Mon 19 Sep	11.00am	Telstra Office, Theatrette, 80 Stirling Street, <b>Perth</b>
Mon 19 Sep	12.30pm	Crowne Plaza, Hindmarsh Ballroom, 16 Hindmarsh Square, <b>Adelaide</b>
Tue 20 Sep	9.00am	Telstra Tower, Theatrette (Lower Ground Floor), 100 Black Mountain Drive, <b>Canberra</b>

For those shareholders unable to attend a meeting, the Melbourne event will be webcast live online. There is no need to register for the webcast. Please visit our website prior to 1pm on Monday 19 September at [www.telstra.com.au/shareholdermeetings](http://www.telstra.com.au/shareholdermeetings).

## Please register at your location

**DIAL:** 1800 131 011 and follow the prompts or **EMAIL:** [shareholder.meetings@team.telstra.com](mailto:shareholder.meetings@team.telstra.com)

Visit our website for more information at [www.telstra.com.au/shareholdermeetings](http://www.telstra.com.au/shareholdermeetings)