Dear Shareholders,

Companies are defined by how they respond in challenging times and there is no doubt Telstra, and the telecommunications industry globally, is operating in times of enormous challenge and change.

On one hand demand for our core products and services continues to grow. Telecommunications networks have become some of the most important pieces of infrastructure in the world today. On the other hand, competition has never been more intense, our market dynamics are shifting rapidly, and customer expectations are changing.

These challenges are not unique to Australia or to Telstra. However, a unique challenge we do have is the nbn™ network. This is having an enormous impact on our business – wholesale prices have risen, meaning we and other industry participants are facing a fixed-line market where reseller margins are rapidly reducing.

At the same time, competition in the mobile market is increasing with the expected entrance of a fourth mobile network operator.

These factors have influenced our performance this year and underpinned our decision to take bolder steps to transform the business through our new Telstra2022 (T22) strategy. We are determined to meet the challenges we face, and to continue to lead in the market, just as we have always done.

Our financial results
Despite the challenges in the market in FY18 our results are in line with guidance and show strong subscriber growth in both fixed and mobile.

The Board announced a fully franked final dividend of 11 cents per share bringing the total dividend for the financial year to 22 cents per share, comprising an ordinary dividend of 15 cents and a special dividend of 7 cents, in accordance with the dividend policy announced in August 2017.

On a reported basis our Total Income grew by 3.0 per cent, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) reduced by 5.2 per cent, and Net Profit after Tax (NPAT) reduced by 8.9 per cent.

We saw strong customer growth for the year and good progress on our productivity program, but the continued downward pressure on EBITDA and NPAT caused by the further rollout of the nbn and lower Average Revenue Per User (ARPU) reinforced the importance of our T22 strategy.

During the year we added 342,000 retail mobile customers, 88,000 retail fixed broadband customers and 135,000 retail bundles. However, challenging trading conditions are expected to continue in FY19, including ongoing pressure on ARPU and further negative impact of the nbn network rollout on our underlying earnings.

Choosing to lead – T22
On 20 June 2018 we announced our new T22 strategy to lead the Australian market by simplifying our operations and product set, improving customer experience and reducing our cost base. T22 will deliver six key outcomes covering customer experience, simplification, network superiority, employees, cost reduction and strengthening the balance sheet.

We have already made strong early progress on the new strategy, launching new mobile plans with no excess data charges, announcing a new organisational structure, leadership team and operating model. Telstra InfraCo has also been established as a standalone business unit with pro-forma financials provided as part of the financial results. For more information on T22, please refer to the Strategy and performance section of our Operating and Financial Review.

Progressing our strategic investments
The new strategy builds on the foundation provided by our up to $3 billion strategic investment in creating the Networks for the Future and digitising the business.

We remain on track to realise the benefits of the investment program, with $1.8 billion invested to date, including $1.5 billion in Networks for the Future as we prepare for the launch of 5G, and $300 million on digitisation. This had enabled us to grow the competitive differentiation provided by our network superiority and reliability.
Our ongoing strategic investment in the performance of our mobile and fixed networks for our customers has been recognised by a number of key industry awards. We were ranked number one on the Netflix Speed Index in July and this year also became the first Australian provider to win both the fixed and mobile Ookla fastest networks for Q1–Q2 2018.

More than 500 new and 1,100 upgraded mobile sites have been switched on and around 400 small cells activated.

We continued to make significant progress in preparing for the commercial launch of 5G, which is central to Telstra’s network investment strategy, through a number of major milestones, including switching on 5G technology across selected areas of the Gold Coast, making Australia’s largest and fastest mobile network the first in the country to be 5G ready. We have demonstrated a number of world firsts at our 5G Innovation Centre on Queensland’s Gold Coast, which we opened in FY18, and significantly boosted Telstra’s IoT capability by activating Cat M1 across the 4GX coverage footprint and adding Narrowband IoT coverage in major Australian cities and many regional towns.

We are building new digital platforms for our Consumer & Small Business and Enterprise customers covering the full customer lifecycle that will underpin Telstra’s ability to move to a new, simplified product suite and improve customer experience. You can read more about our network investments and the progress we are making on digitisation in the Strategy and performance section of our Operating and Financial Review.

Delivering for our customers

Our Strategic Net Promoter Score (NPS) was flat during FY18, though we saw positive movement in the second half. Episode NPS, which measures customers’ assessments of individual interactions improved significantly.

As well as the improvements delivered through the Digitisation program, we introduced a number of customer experience improvements and made a number of enterprise acquisitions to boost our NAS and IoT solutions during FY18.

This included significantly improving consumer customers’ experience when they connect to the nbn. The NPS score for nbn Consumer orders has seen a 13-point improvement year-on-year at a time when more customers are connecting to the nbn than ever before. Almost four million customers are now active users of our 24x7 App, which is a 22 per cent year-on-year increase. This app enables consumer customers to self-manage their account and services from their smartphone or tablet and has recently been redesigned to make it even easier and more intuitive for customers to use.

We also introduced robotics across six processes which has significantly improved the speed of customer service. Billing activation for mobile handsets, which used to take three days, now takes less than a minute.

We opened Telstra’s Security Operation Centres in Sydney and Melbourne from which Telstra offers a broad range of services to help government and enterprise customers manage their organisations’ cyber security.

During FY18 two of our key acquisitions include MTData, a leading provider of GPS and telematics fleet management solutions to help drive IoT growth in Australia and internationally. MTData delivers solutions that assist customers with compliance and safety, improving productivity and reducing operating costs. We also acquired Vmtech, a leading professional and managed services provider with expertise in the delivery and management of enterprise-grade hybrid cloud, connectivity and security solutions.

Improving our productivity

In June 2018, we announced we would target a further $1 billion annual reduction in underlining core fixed costs by FY22 in addition to the previous target of $1.5 billion, meaning underlying core fixed costs will be $2.5 billion per annum lower in FY22 compared with FY16. We have delivered against these cost ambitions for the year and are ahead of the run rate required to meet our net productivity target with underlying core fixed costs declining by 7.0 per cent or $480 million.

Network disruptions

Our network investment has seen a marked improvement in resiliency, with a reduction in mobile customer outage hours of more than 80 per cent since June 2016. Despite every effort, networks are complex and not immune to disruption. Disappointingly, we did experience a number of network disruptions during May 2018 which impacted on our customers and the broader community for which we sincerely apologise.

The most significant of these was a disruption to the 000 emergency service – a critical public service that receives our highest network prioritisation. During this incident, the network redundancy built to reduce the risk of isolated incidents causing widespread impacts did not function as designed. We have conducted a detailed investigation to understand why this happened, are putting in place additional network monitoring and protections, and are leading the development of a collective response management plan for the 000 service with all relevant stakeholders.

Portfolio management

In April, we reached an agreement with News Corp to combine Foxtel and FOX SPORTS Australia. This agreement will deliver premium and innovative content to Australians with even greater quality, variety and efficiency. Telstra's 35 per cent holding in the new entity resulted in a one-off accounting gain of $261 million.

In July Telstra Ventures formed a new fund with capital investment firm HarbourVest. This initiative has enabled us to continue to leverage the benefits of our successful Telstra Ventures activation while enhancing our capability and reducing capital commitments in the future. We will realise approximately $75 million from the initial HarbourVest investment.

During the year we also recognised an impairment charge for the Ooyala Holdings Group, which resulted in an A$273 million write down.

Executive and Board renewal

On 30 July 2018, we announced a new organisational structure and leadership team. The structural changes, effective from 1 October 2018, are an important step in delivering our T22 strategy and will help ensure we deliver rapidly and effectively on all the commitments we made to our customers, the market and our people.

Chief Financial Officer, Warwick Bray, Group Executive Media and Marketing, Joe Pollard, and Group Executive Wholesale, Will Irving, will be leaving Telstra in the first half of FY19. Group Executive Technology, Innovation and Strategy, Stephen Elop, left the business on 31 July 2018. We would like to recognise the significant contributions each Executive has made and thank them for their dedication over the years.

Experienced American telecommunications executive Roy H. Chestnutt joined the Board in May 2018, further enhancing the Board’s collective set of skills and experience. The Telstra Board is always cognisant of the rapidly changing environment in which the company operates and seeks to appoint directors with relevant skills and experience. Mr Chestnutt is a timely and impactful addition to the Board, bringing with him more than 30 years of direct telecommunications experience and significant perspective from the US and global markets. We would like to acknowledge Director Steve Vamos who has announced his intention to retire from the Telstra Board at our Annual General Meeting on 16 October 2018. Mr Vamos has been a director since September 2009 and we thank him for his valued contribution over the past nine years. An announcement about the appointment of a new non-executive director will be made in due course.
Delivering on sustainability

We are acutely aware of the important role we continue to play in connecting and supporting communities, including in regional areas, and to serving the needs of our vulnerable customers. Progress this year includes helping around one million vulnerable people to stay connected, and the launch of our refreshed Environment Strategy.

We are planning and investing in a digital future that champions the needs of regional and remote communities. In FY18 we have switched on more than 300 new mobile base stations across Australia through the Federal Government’s Mobile Black Spot Program, and our newly launched co-investment program will fund regional infrastructure in areas that have high community value but would otherwise be uneconomical to build. To help us identify and address local challenges and opportunities we have established three state-based Regional Advisory Councils and a number of partnerships.

We also remain committed to making progress on gender equality. In March 2017 we introduced a Recruitment Equality Procedure that mandates a minimum female representation on shortlists and interview lists for all roles at Telstra. After 15 months in operation, the proportion of female applicants has remained stable, however female representation on shortlists and in interviews, offers, and commencements has increased.

Our Bigger Picture 2018 Sustainability Report provides more information on these and other initiatives. You can read more at telstra.com/sustainability/report.

Outlook

Our FY19 guidance has not changed from that provided on 20 June 2018 at Telstra’s T22 announcement, except to adjust for the impact of the new Australian Accounting Standards Board accounting standard (AASB15). The result of the adjustment is that FY19 income guidance has decreased by $100 million and EBITDA guidance has increased by $100 million.

In FY19 we expect income in the range of $26.5 to $28.4 billion and EBITDA (excluding restructuring costs) of $8.8 to $9.5 billion. FY19 additional restructuring costs are expected to be around $600 million. FY19 net one off nbn DA receipts less nbn cost to connect are expected to be between $1.8 and $1.9 billion. Capital expenditure is expected to be between $3.9 to $4.4 billion or approximately 16 to 18 per cent of sales, and free cashflow is expected to be in the range of $3.1 to $3.6 billion.

FY19 is a very material year in the migration to the nbn and its impact on our business. This guidance is based on management’s best estimates and may need to be adjusted when nbn co releases its Corporate Plan, which is expected on 31 August 2018.

A year of challenge and change

This year, through our commitment to the new T22 strategy, we took a bolder stance to lead the market by simplifying our operations and product set, improving the customer experience and reducing our cost base.

T22 is about recognising what telecommunications looks like in the future and building the best possible capability to get there. It is bold, but we very much believe it is the right step and it will put us in a strong position in the future.

Thank you to our shareholders, our employees and our customers for their ongoing support.

John P Mullen,
Chairman

Andrew R Penn,
CEO and Managing Director

Retail shareholder information meetings

In September, we are pleased to host a series of retail shareholder information meetings around the country with our senior executives. This year, meetings will be held in Melbourne, Brisbane, Adelaide and Perth. The Melbourne meeting will also be webcast live for shareholders to view online and further details can be found in the attached flyer. Our Annual General Meeting will be held on Tuesday 16 October 2018 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 if you have any enquiries or feedback, please email investor.relations@team.telstra.com. Alternatively you can call 1800 880 679 (within Australia), or write to Telstra Investor Relations Department, Level 28, 242 Exhibition Street, Melbourne, VIC 3000.

1. This report will be available online from 31 August 2018.
Retail shareholder information meetings

We are pleased to provide details of our retail shareholder information meetings in September. At these meetings, management will provide an overview of the full year results, an update on our recently announced Telstra2022 strategy and shareholders will have the opportunity to ask questions of management.

As our Annual General Meeting (AGM) is being held in Sydney on 16 October 2018, we will not hold a retail shareholder information meeting in Sydney.

If you are unable to attend in person, the Melbourne event will be webcast live online on Monday 17 September from 10am (AEST) at www.telstra.com.au/shareholdermeetings

There is no need to register for the online webcast.

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| 17 September  | 10am       | Grand Hyatt 123 Collins Street, Melbourne | Andy Penn, Chief Executive Officer  
               |             |                                   | Warwick Bray, Chief Financial Officer               |
| 18 September  | 10am       | Hilton Hotel 190 Elizabeth Street, Brisbane | Will Irving, Group Executive – Telstra Wholesale  
               |             |                                   | Warwick Bray, Chief Financial Officer               |
| 20 September  | 10am       | Hilton Hotel 233 Victoria Square, Adelaide | Will Irving, Group Executive – Telstra Wholesale  
               |             |                                   | John Boniciolli, Deputy Chief Financial Officer     |
| 21 September  | 10am       | Hyatt Hotel 99 Adelaide Terrace, Perth | Warwick Bray, Chief Financial Officer                |

To register for a meeting, please contact our Investor Relations team:

📞 1800 131 011
✉️ shareholder.meetings@team.telstra.com