



9 August 2012

Dear Shareholder

We are writing to provide you with an update on Telstra's results for fiscal year 2012 which were reported to the market this morning. The results highlighted growth in revenue and profits in line with guidance, as well as the addition of 1.6 million Australian mobile customers. A fully franked 14 cent final dividend was also confirmed, bringing the total dividend to 28 cents per share for the 2012 fiscal year.

We have seen two years of significant customer growth as our strategy continues to bear fruit. This has translated into strong financial results despite tough domestic and international economic conditions. We delivered on our commitments, met guidance and demonstrated greater resilience than other sectors in a challenging market environment.

Key Financial Results

Including an impairment of \$130 million associated with the pending sale of TelstraClear, our wholly owned New Zealand subsidiary, reported results for the 12 months to June 2012 were:

- **Total revenue** increased by 1.1% or \$275 million to \$25,368 million
- **EBITDA** increased by 0.8% or \$83 million to \$10,234 million
- **Net Profit After Tax** increased by 5.4% or \$174 million to \$3,424 million
- **Capex to sales ratio** of 14.2%, with capital expenditure of \$3,591 million
- **Free cash flow** of \$5,197 million

On a guidance basis (before impairments, Government NBN Definitive Agreement receipts and regulated wholesale price changes), results for the financial year were:

- **Total revenue** increased by 1.3%
- **EBITDA** increased by 2.1%
- **Free cash flow** was \$5,285 million

Key outcomes for strategic priorities

Customer satisfaction

TIO level 1 complaints relating to Telstra reduced by 26% and consumer call volumes by 21%. Customer service improvements introduced over the last year include a new consumer bill format, making it simpler and clearer for customers to understand charges, the introduction of an application which enables customers to access their account via an Apple iPad® and Facebook and many other operational improvements.

Growth in number of customers

Telstra's product offers and network investments continued to attract new customers during the year, adding:

- 1.6 million domestic mobile customers, to a total of 13.8 million;
- 203,000 retail fixed broadband customers, to a total of 2.6 million;
- 336,000 customers on bundled plans, to a total of 1.4 million;
- 475,000 Hong Kong mobile customers, to a total of 3.5 million.

Telstra's 4G network build accelerated during the year and now covers approximately 40% of Australia's population. Customers have activated more than 375,000 4G devices since launch.

Telstra's domestic mobile business generated more than one third of revenue. Telstra has added more than three million new mobile customers over the past two years. Mobile revenue growth of 8.5% was achieved while margins increased by three percentage points to 36%.

Growth in retail broadband partly offset declines in wholesale revenues, which included the impact of regulatory access determinations. Fixed line revenue decline was steady at 6.1%.

Simplification

Telstra's business improvement programme remained on track and delivered benefits in fiscal 2012 of \$1.1 billion, enabling reinvestment in customer service initiatives. These benefits included improvements in labour productivity, reduced customer call volumes and growth in online customer interactions.

Growth opportunities

Network Application and Services (NAS) revenue grew by 10.5% to \$1,263 million, with several significant contracts signed providing a strong foundation for 2013. Major customers signed within the NAS portfolio included the Department of Human Services, Australia Post and NAB.

Across the Media portfolio, Foxtel's acquisition of Austar was an important milestone. Sensis revenue declined by 17.7% as the move to online accelerated. Customer response to Sensis' digital offers improved in recent months across metro and non-metro regions. Excluding Sensis and advertising, digital media product revenue increased 4.7% over the year.

In the Telstra International Group, which incorporates Telstra's investments in Asia, revenue grew by 7% driven by growth in the Hong Kong mobile services (CSL) business and global connectivity and international NAS products (Telstra Global), as the company benefited from integrating assets acquired from Reach.

National Broadband Network (NBN)

In March 2012, Telstra finalised the NBN agreements with the Commonwealth and NBN Co, including ACCC acceptance of Telstra's Structural Separation Undertaking, and commenced providing long term infrastructure access under the Infrastructure Services Agreement (ISA). Telstra recently handed over stage one of the transit network (dark fibre and exchange rack spaces) to NBN Co. The company continues to work collaboratively with NBN Co on the building of its access network. Telstra has also launched retail and wholesale services over the NBN following successful trials in the early release sites.

Financial outlook

Telstra expects growth to continue in fiscal year 2013 and forecasts low single digit total income and EBITDA growth, with free cashflow between \$4.75 and \$5.25 billion. Telstra expects capital expenditure to be around 15% of sales over the next two years as we plan to invest in our mobile network and in the delivery of infrastructure to NBN Co to bring forward benefits from the NBN agreements.

Guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds on the sale of businesses and the cost of spectrum purchases. The foreign exchange impairment on TelstraClear expected on completion is also excluded.

As announced in October 2011, it is the company's intention to maintain a 28 cent fully franked dividend for fiscal 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

Retail shareholder information meetings

We understand how important it is to keep our shareholders informed. In September, we are pleased to again host a series of retail shareholder information briefings around the country with Telstra's Chief Executive Officer David Thodey and Chief Financial Officer Andrew Penn. This year, briefings will be held in Sydney, Melbourne, Adelaide, Brisbane, Perth and Darwin. Further details can be found in the accompanying Telstra Shareholder Update brochure, by calling 1800 131 011 or online at www.telstra.com.au/shareholdermeetings

C B Livingstone

Catherine Livingstone AO
Chairman

David Thodey

David Thodey
Chief Executive Officer