

14 August 2014

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Letter to Shareholders

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

Yours faithfully



Damien Coleman
Company Secretary

14 August 2014

Dear Shareholder

We are pleased to update you on Telstra's full year results which we announced to the market this morning.

This was a year of accelerating momentum for our company, one in which we saw continued growth in revenue, profit and customer numbers, and demonstrated the value being created by our focus on improving customer advocacy, while investing in our core and growth businesses.

We are pleased to have again delivered on our financial commitments and to have announced a 29.5 cent fully franked dividend for the 2014 financial year, distributing \$3.7 billion to shareholders. After considering our capital management options, we have also announced an off market share buy-back of up to approximately \$1 billion of Telstra shares. A buy-back was considered to be the most effective and appropriate way to deploy the surplus capital generated from ongoing performance and key divestitures. Eligible shareholders will receive detailed information about this offer shortly.*

Our customers remain our highest priority. Telstra operates in a dynamic and competitive environment: ongoing changes in mobile, broadband and other technologies are transforming the communications industry and the world we all live in. Competing in this environment requires a commitment to excellence in customer service and innovation, areas in which we continuously strive to improve.

Our 2014 results reflect the fundamental financial strength of our business. A summary of our key reported financial results are as follows:

2014 RESULTS - SUMMARY

STRONG KEY FINANCIALS			PRODUCT REVENUE RESULTS		
TOTAL INCOME ⁽ⁱ⁾	6.1%	↑	MOBILES	5.1%	↑
EBITDA ⁽ⁱⁱ⁾	9.5%	↑	FIXED VOICE	-7.5%	↓
NET PROFIT AFTER TAX	14.6%	↑	FIXED DATA	6.3%	↑
EARNINGS PER SHARE	14.3%	↑	NETWORK APPLICATIONS & SERVICES	27.8%	↑
DIVIDEND PER SHARE	5.4%	↑			

(i) Excludes finance income
(ii) Earnings before interest, tax, depreciation and amortisation

Our Strategy

During the year we announced refinements to our long term strategy which we then supported by organisational changes, thereby aligning senior leaders to growth opportunities in Australia and overseas. Our strategy focuses Telstra on the three pillars of improving customer advocacy, driving value from the core and building new growth businesses. It makes our ambitions clear and also shows where you can expect us to continue building value.

Improve customer advocacy

Throughout the year we remained committed to improving the services, products and experiences we provide to our customers. Much of this work is informed by our Net Promoter System (NPS) program through which we actively seek feedback and measure our progress. Through the year we introduced many initiatives to improve the customer experience.

Our overall NPS score improved by three points over the 2014 financial year, building on the improvements we saw last year, but we still have a lot of work to do to consistently deliver our customers a great service experience. Please do not hesitate to let us know if you experience poor (or good) customer service.

Drive value from the core

Our products and services mix continues to change, illustrating how fundamentally our business has been redefined by mobility, the internet and data demand. Fixed voice revenue now accounts for only 16 per cent of total sales revenue, whereas mobiles now account for 38 per cent of sales revenue.

Much of Telstra's reputation and core strength is built on the foundation of providing customers with outstanding mobile service in cities, and in regional and remote Australia. We are committed to maintaining our network leadership and this year we invested \$1.1 billion in our mobile network, including significant expansion of our 4G mobile coverage, to now reach 87 per cent of the Australian population – with four times the geographical coverage area of any other 4G network. Our 3G service provides coverage to 99.3 per cent of the population.

During the year we added 937,000 new domestic retail mobile customer services. We now have 16 million domestic retail mobile customer services. As a part of our strategy to provide customers with flexibility and choice in connection, we recently started designing Australia's largest national public Wi-Fi access network, in a five year \$100 million project which will deliver 13 million Wi-Fi hot spots around the world within five years.

The total value of benefits from our FY14 productivity program, which includes \$550 million of expense benefits as well as revenue, capital expenditure and avoided costs, is \$1 billion. We have reinvested these benefits in the business to support our customer advocacy initiatives, growth in our customer base and building new growth businesses.

Build new growth businesses

We continue to execute our growth strategy in Network Applications and Services, extending our application service offerings into Asia, and launching Global Managed Network Services and Global Infrastructure as a Service, as well as announcing our proposed joint venture with Telkom Indonesia, a proposed arrangement for the provision of network applications and services, primarily in Indonesia.

Our strategy is supported by the establishment of a new business unit, Global Enterprise and Services. This is an industry-based services and solutions business operating at a global scale to deliver innovation, integration and service for our customers locally and around the globe.

Growth in Asia continues to be a key focus. Our international team offers customers connectivity solutions, including managed network services, international data, voice and satellite solutions and they also manage our submarine cable networks and assets. We continue to leverage these assets for growth. We also made further changes to our international business, appointing Country Managers in each market.

In China, we have a 63.2 per cent stake in Autohome Inc., the country's leading online destination for car buyers, which was listed on the New York Stock Exchange on 11 December 2013. Our stake is valued at \$2.9 billion at 13 August.

Other emerging opportunities include Telstra Health, which continued to work towards its objective of establishing a connected health IT ecosystem.

On Tuesday 12 August, we announced that we would increase our ownership in Ooyala Inc. to 98 per cent. Ooyala is a leader in video streaming and analytics, and is the first investment for our Global Applications & Platforms (GAP) group.

Portfolio Management

We continued to be active and disciplined in our approach to portfolio management this year, with announcements of the sale of our 76.4 per cent stake in the Hong Kong mobile business CSL New World Mobility Limited ("CSL"), and the sale of a 70 per cent interest in our Sensis directories business.

We understand the need to be innovative in our investments for the future as we explore new opportunities. This thinking was reflected in the investments we made during the year in new growth areas for the business.

National Broadband Network (NBN)

We have provided a separate update on our renegotiation of the NBN Definitive Agreements within the [Annual Report](#), also released today.

Part of the Community

Telstra is committed to helping build better communities and showing that we care in the way we respond to important economic, social and environmental challenges. Our sustainability strategy details how we believe we can create the most value. Part of this strategy lies in providing opportunities for our employees to be involved in the community and in issues that matter to them.

We believe that all Australians should enjoy the benefits of being connected to modern communications technologies, regardless of age, income, ability or location. We want everyone to have the confidence and skills to participate safely in the digital world and we partner with experts in the field to offer wide ranging training courses and information. As a company, we also remain committed to reducing our environmental impact and to helping our customers and suppliers to do the same. These initiatives are not just the right thing to do; they are part of who we are.

Looking Ahead

In 2015 Telstra expects continued low single-digit income and EBITDA growth to offset the absence of CSL 2014 operating revenue and EBITDA. As a result, and after excluding the \$561 million profit on sale of CSL in 2014, Telstra's income and EBITDA guidance for 2015 is broadly flat. Telstra expects 2015 free cashflow of between \$4.6 billion and \$5.1 billion and capital expenditure to be around 14 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, the cost of acquisitions and spectrum purchases.

Retail shareholder information briefings

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 and Group Executive International Andrew Penn. This year, briefings will be held in Sydney, Melbourne, Adelaide and Perth. Further details can be found at www.telstra.com.au/shareholdermeetings.

Our Annual General Meeting will be held on 14 October 2014 in Brisbane and we look forward to sending you our Notice of Meeting in the coming weeks.

We would like to thank the leadership team and all of our employees for their commitment, effort and initiative this year. We also thank you for your loyalty as a shareholder and welcome your comments and feedback. These can be provided to investor.relations@team.telstra.com, via phone on 1800 880 679, or in the mail to the Investor Relations Department, Telstra, Level 32, 242 Exhibition Street, Melbourne, VIC 3000.

C B Livingstone

Catherine Livingstone AO
Chairman

David Thodey

David Thodey
Chief Executive Officer

* This letter does not constitute, or form part of, any offer or invitation to sell, or any solicitation of any offer to purchase securities in any jurisdiction, nor shall it or the fact of its distribution be relied on in connection with any contract thereof. No indications of interest in the buy-back are sought by this letter. Certain shareholders are not eligible to participate, directly or indirectly, in the buy-back described in this release, including any (i) person who is located or resident in the United States, (ii) U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended), or (iii) agent, fiduciary or other intermediary acting on a nondiscretionary basis for a principal giving instructions from within the United States.