

13 February 2014

Dear Shareholder

We are pleased to update you on Telstra's first-half results which we announced to the market this morning. Telstra has confirmed it is on track to meet its full year guidance and has announced an increased interim dividend of 14.5 cents per share, distributing \$1.8 billion to shareholders.

A summary of our key reported financial results follows, along with more detailed financial and operating commentary.

## 2014 1H RESULTS - SUMMARY

KEY FINANCIALS	PRODUCT REVENUE	CUSTOMER GROWTH
TOTAL INCOME ↑ 4.1%	MOBILES ↑ 6.4%	739,000 NEW DOMESTIC RETAIL MOBILE CUSTOMER SERVICES
EBITDA ↑ 7.0%	FIXED VOICE ↓ -7.3%	75,000 NEW RETAIL FIXED DATA CUSTOMERS
NET PROFIT AFTER TAX ↑ 9.7%	FIXED DATA ↑ 6.0%	117,000 NEW CUSTOMERS ON A FIXED BUNDLE
EARNINGS PER SHARE ↑ 8.7%	NETWORK APPLICATIONS & SERVICES ↑ 29.3%	
DIVIDEND PER SHARE ↑ 3.6%	INTERNATIONAL ↑ 28.3%	

Telstra has continued to deliver revenue, profit and customer growth in the first half of financial year 2014, demonstrating that Telstra's ongoing investment in core and growth businesses is creating value for you, our shareholders.

Our customers remain our highest priority and our focus during the past six months has been to continue to improve the way we interact with them every day as well as provide them with access to the best networks in Australia. More Australians are choosing to connect and stay with Telstra every day.

Our customer focus has led to continued mobile growth with the addition of 739,000 new retail mobile customer services and an increase in mobile services revenue of 7.3 per cent. We continued to invest in maintaining our network leadership, highlighted by our \$650 million capital investment in mobiles infrastructure in the half.

Telstra has had one of the fastest take-ups of the 4G network anywhere in the world. We now have 15.8 million domestic mobile customer services, including 4.1 million 4G mobile devices on our network, and we expect to see continued growth in this area.

Telstra is continuing to build on the company's solid foundations, including rebalancing the portfolio to reflect the changing nature of the business as well as driving innovation through investments in emerging businesses.

We announced a refreshed strategy in the half and realigned our structure to provide increased focus and resources to growth areas such as Asia and Network Application and Services (NAS).

Our NAS business recorded revenue growth of 29 per cent to \$821 million. We continued to invest in NAS by building our capabilities and acquiring companies such as North Shore Communications (NSC) and O2 Networks.

Group operating expenses increased by 2.1 per cent in the first half, largely driven by costs supporting revenue growth. For example, we have incurred upfront costs to support the implementation of our largest

contract, Department of Defence, as well as expenditure on programs to improve customer service. More broadly we are working to improve the efficiency of our NAS business.

We continue to be active and disciplined in our approach to portfolio management with the announcements this year of the sale of the Hong Kong mobile business CSL New World Mobility Limited and a 70 per cent interest in Sensis. The anticipated proceeds from the sales will be incremental to Telstra's guidance for free cash flow of \$4.6 to \$5.1 billion for fiscal year 2014.

We expect these transactions to complete in the second half of the fiscal year, subject to approvals, and we will deal with these proceeds in accordance with the principles outlined in our capital management framework.

Our portfolio management also included selecting the right capital structure for parts of the business, with the New York Stock Exchange listing of Autohome, in which we hold a 65 per cent stake. While being disciplined in our approach to portfolio management, we also need to be innovative in our investments for the future and explore new opportunities. This is reflected in some of the investments we have made in new growth areas of the business as well as our recently announced joint venture with Telkom Indonesia.

Telstra's new Health division acquired DCA Health and a 50 per cent stake in FRED IT.

In Global Applications and Platforms Telstra launched muru-D, an initiative to help Australia retain its unique entrepreneurial talent and help drive technology based economic development, and we increased our stake in Ooyala through our Ventures Group.

## Key Financial Results

### The reported results for the six months ending December 2013 are:

- Total income<sup>1</sup> increased 4.1 per cent or \$502 million to \$12.8 billion
- EBITDA increased 7.0 per cent or \$347 million to \$5.3 billion
- Net profit after tax increased 9.7 per cent or \$154 million to \$1.7 billion
- Earnings per share increased 8.7 per cent to 13.7 cents
- Accrued capital expenditure decreased 2.1 per cent to \$1.8 billion, in line with a 15 per cent capex to sales ratio
- Free cashflow decreased 23.4 per cent or \$505 million to \$1.65 billion. Excluding \$671 million of proceeds from the sale of TelstraClear in 2012, free cashflow increased by 11.2 per cent

## Key outcomes against strategic priorities

### Improving Customer Advocacy

Telstra is committed to improving the service and experience provided to customers.

Offering Australia's largest and most reliable mobile network is central to helping our customers stay connected in more locations across Australia. We have also introduced a range of other initiatives to help make their lives easier, including the launch of a product called StayConnected, which gives customers who lose or break their phone, a new handset the next day to ensure continued access to their data.

We have introduced initiatives to improve cost certainty and control for customers using their mobiles overseas; and we continue to reward our customers for their loyalty with one million of our movie, sports and music offers taken up as part of our Thanks program.

These are just a few examples of the changes we are making to improve our service for customers. We will be introducing further initiatives in the coming months to ensure our customers benefit from an experience supported by some of the most innovative tools, smart systems and advanced applications available.

### Driving value from the core

Telstra is committed to maintaining its network leadership and will continue to invest to deliver value from its core businesses.

At Christmas we achieved a significant milestone, with our 4G network reaching 85 per cent coverage of the Australian population, including the upgrade of 1,500 mobile base stations to 4G in the past six months. We now have 3,500 4G mobile base stations across the country, giving us four times the 4G coverage area of any other company.

There has been continued growth in fixed bundled plans, such as our popular Entertainer bundles, with the addition of 117,000 customers bringing the total number of customers on a bundle to 1.7 million.

On productivity, Telstra reported benefits of \$225 million in the half, to help offset expense growth.

### **Building new growth businesses**

Network Applications and Services (NAS) recorded double digit revenue growth across most categories including Cloud, up 29 per cent, Unified Communications, up 28 per cent and Managed Network Services, up 65 per cent.

International businesses grew revenue by 28 per cent to \$1.08 billion, driven by growth in CSL which recorded a 28 per cent increase in revenue, to \$630 million and a 78 per cent increase in revenue from China digital media due to Autohome. Excluding foreign exchange impacts, international businesses grew revenue by 15.5 per cent.

### **NBN**

Telstra has commenced negotiations with the NBN Co and Government on potential changes to the current agreements that may result from the Government's intent to move to a multi-technology NBN rollout.

We are committed to acting in your best interests, and are focused on maintaining the value of the current agreements, achieving certainty of outcome as soon as reasonably possible and minimising any additional regulatory risk.

During the period Telstra recommenced pit remediation works following the implementation of additional safeguards in relation to asbestos handling, including training and supervision of employees and contractors. Consistent with previous advice, there has not been a material financial impact on our operating results.

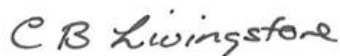
### **Outlook**

Telstra has confirmed fiscal 2014 guidance of low single digit total income and EBITDA growth, with free cashflow between \$4.6 billion and \$5.1 billion. We expect accrued capital expenditure to be around 15 per cent of sales.

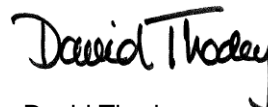
This guidance assumes wholesale product price stability, no impairments to investments, and excludes any proceeds on the sale of businesses (including proceeds and adjustments in relation to Sensis and CSL), the cost of acquisitions and spectrum purchases.

Telstra has also confirmed a fully franked interim dividend of 14.5 cents per share. Shares will trade excluding entitlement to the dividend on 24 February 2014 with payment on 28 March 2014.

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 32, 242 Exhibition Street, Melbourne, VIC 3000.



Catherine Livingstone AO  
Chairman



David Thodey  
Chief Executive Officer

i. Total income excludes discontinued operations. The Sensis Group was disclosed as a discontinued operation. The carrying value of assets and liabilities of the Sensis Group, with the exception of the cash balances which were excluded from the sale agreement, were classified as held for sale as at 31 December 2013, and measured at the lower of carrying amount and fair value less costs to sell.