

7 February 2013

Dear Shareholder

We are pleased to update you on Telstra's first-half results which we announced to the market this morning. Telstra reported increases in revenue and net profit, as well as recording strong customer number growth, for the six months to 31 December 2012. A 14 cent fully franked interim dividend was also announced, representing a \$1.7 billion return to shareholders. The company also confirmed guidance for fiscal 2013.

These results show we are delivering on our commitments. We continue to see customer growth in key products and services, particularly mobiles. This is testament to our focus on improving customer service and maintaining network leadership.

Telstra invested \$1.9 billion in capital expenditure during the six months, including significant investments in Australia's largest and most reliable national mobile network. Our investment in the mobile network is attracting more customers. We have now sold 1.5 million 4G devices and we are on track to expand 4G coverage to 66% of the Australian population by June 2013.

Our focus on customer service and network investment contributed to customer retention and acquisition. A total of 607,000 new domestic mobile customers joined Telstra in the half year, bringing the total number of Telstra's Australian mobile customers to 14.4 million. Mobile revenue grew by 4.6% to \$4,560 million.

## Key financial results

The **reported results** for the six months to 31 December 2012 were:

- **Total income** increased by 1.7% or \$210 million to \$12,711 million
- **EBITDA** increased by 5.0% or \$236 million to \$4,986 million
- **Net Profit After Tax** increased by 8.8% or \$129 million to \$1,597 million
- **Capex to sales ratio** of 15%, with capital expenditure of \$1,890 million
- **Free cashflow** of \$2,155 million

Free cashflow for the half of \$2,155 million included cash proceeds from the sale of TelstraClear of \$671 million. Excluding cash proceeds from the TelstraClear sale, free cashflow declined by 17%, due to increased working capital to support business growth.

On a **guidance basis**<sup>1</sup> (adjusted for TelstraClear trading results and sale), results for the half-year were:

- **Total income** increased by 2.5%
- **EBITDA** increased by 8.7%

## Key outcomes against strategic priorities

### Improving customer satisfaction

Telstra achieved a 10 per cent reduction in the number of TIO complaints from a year ago but we acknowledge there is room for improvement in customer service. We are very committed to putting the customer at the centre of everything we do. We are continuing to make improvements, whether enhancing our digital and online service capability, refreshing mobile plans or cutting transaction times in our retail stores.

### Growth in number of customers

Telstra's product offers and network investments continued to attract new customers during the six months to 31 December 2012, delivering net growth of:

- 607,000 domestic mobile customers, to 14.4 million;
- 85,000 fixed retail broadband customers, to 2.7 million; and
- 321,000 Hong Kong mobile customers, to 3.8 million.

<sup>1</sup> The guidance basis has been reviewed by our auditors.

In addition 117,000 customers on bundled plans were added, bringing the total of customers on bundled plans to 1.5 million. PSTN customer numbers decreased by 151,000 to 7.9 million and PSTN revenue declined by 10.8%.

### **Simplifying the business**

Productivity benefits totalled \$381 million for the half year. These were delivered by continued process improvement, effective credit management and further migration to online services and were reinvested into the business, funding customer service and business growth initiatives. Growth in digital sales and service volumes continued with 540,000 active monthly users of Telstra's 24/7 customer service application. About 2.7 million visits were made to the mobile compatible website, up 700% from a year ago. Consumer online sales volumes increased 62% from a year ago.

### **Building new growth businesses**

Network Application and Services (NAS) revenue grew by 10.6% to \$636 million, with growth from several long term contracts which were signed during fiscal 2012. International businesses, including Telstra's investments in Asia, grew revenue by 10.8% through customer growth in the Hong Kong mobile services business (CSL), global connectivity and NAS products (Telstra Global).

Digital media revenue, which includes Sensis, declined by 7.0%. Sensis performed as expected with revenue down 12.5%. Sensis digital revenue growth was 11.0%, an improvement from 2.5% a year ago. Adjusted for the timing of book sales, the print revenue decline was consistent with declines in recent periods. The majority of print revenue will be recognised in the second half. We will continue to restructure Sensis as we transition from a print to a digital business.

### **National Broadband Network (NBN)**

We continue to support NBN Co and made good progress on the build of the transit network and commenced selling NBN retail and wholesale services. Telstra recognised revenue of \$176 million from the NBN agreements. This included \$94 million amortisation of Commonwealth payments received in fiscal 2012. It also included \$82 million relating to the TUSMA agreement under which Telstra provides public interest services, including the Universal Service Obligation, and provision of access to infrastructure and other related services to NBN Co.

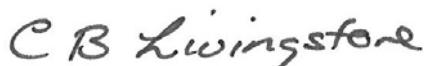
### **Outlook**

Telstra has confirmed fiscal 2013 guidance of low single digit total income and EBITDA growth, with free cashflow of between \$4.75 billion and \$5.25 billion. Telstra expects capital expenditure to be around 15% of sales. Guidance assumes wholesale product price stability, no impairments to investments, excludes any proceeds on the sale of businesses, adjustments on the sale of TelstraClear and the cost of spectrum purchases.

Our strategy is unchanged and delivering results for customers and shareholders. We will continue to focus on improving customer satisfaction, growing customer numbers, simplifying the business and taking advantage of new growth opportunities. We are making good progress but there is more to do.

Telstra has confirmed a fully franked interim dividend of 14 cents per share. Shares will trade excluding entitlement to the dividend on 18 February 2013 with payment on 22 March 2013. As announced in October 2011, it is the company's intention to maintain a 28 cent fully franked dividend per share for fiscal 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

We thank you for your loyalty as shareholders and welcome your comments and feedback. These can be provided to [investor.relations@team.telstra.com](mailto:investor.relations@team.telstra.com) or in the mail to the Investor Relations Department, Telstra, Level 32, 242 Exhibition Street, Melbourne, VIC 3000.



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