

18 February 2016

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Letter to Shareholders

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

Yours faithfully



Damien Coleman
Company Secretary

LETTER TO SHAREHOLDERS HALF-YEAR 2016



Catherine Livingstone AO, Chairman
Andrew Penn, Chief Executive Officer

Dear Shareholder,

Telstra today announced its half-year results. In the first half of financial year 2016, we have grown retail fixed bundle and mobile customer numbers, achieved income growth across all segments as well as higher net profit after tax, confirming we are on track to meet our full year guidance.

Reported total income excluding finance income increased 9.1 per cent to \$14.2 billion. Telstra Directors confirmed a fully franked interim dividend of 15.5 cents, up 3.3 per cent, returning \$1.9 billion to shareholders.

The results represent the first full six month operating period with Pacnet Limited, acquired in April 2015. On a guidance basis and excluding Pacnet operating results, total income excluding finance income increased 7.3 per cent and EBITDA increased 1.4 per cent.

The results reflected the importance of Telstra's strategy of improving customer advocacy, continuing to drive value and growth from core businesses, and supporting its growth agenda to create value for shareholders.

Improving customer advocacy remains the single most important driver of Telstra's strategy, and will be achieved only with world class customer service, technology, networks and delivery.

Our results have been achieved against increased mobile competition and acceleration in the National Broadband Network (NBN) multi-technology model roll out. We have continued to innovate and develop products and services to meet changing customer preferences and expectations in our fixed and mobile businesses.

We are actively working to simplify our business, drive down costs and help our customers experience what technology can do for their lives and businesses. As a result, our Net Promoter System result was three points higher than the first half of FY15.

Network superiority

Telstra has continued to invest in its core technology so that customers enjoy the benefits of world class networks.

We strengthened our domestic network leadership with our 4G footprint covering 96 per cent of the Australian population with 99 per cent planned by June 2017.

More than 1,200 additional sites have been upgraded to 4GX standard for more reliable service and coverage in more places including deeper in buildings. We also have more than 500,000 customers registered with our Telstra Air Wi-Fi network including 120,000 mobile customers.

KEY OUTCOMES

Reported total income excluding finance income increased 9.1 per cent to \$14.2 billion

Reported EBITDA increased 1.7 per cent to \$5.4 billion

Net profit after tax increased 0.8 per cent to \$2.1 billion

Earnings per share increased 1.8 per cent to 17.2 cents

Fully franked interim dividend of 15.5 cents, up 3.3 per cent returning \$1.9 billion to shareholders

Added 235,000 domestic retail mobile services to 16.9 million, 121,000 retail fixed broadband customers and 163,000 retail fixed bundle customers

Capital expenditure increased 20.0 per cent to \$2.1 billion

Mobile revenue increased 3.7 per cent to \$5.5 billion. Post-paid handheld mobile churn remained at world class lows, decreasing 0.1 percentage points to 10.7 per cent. Telstra added 235,000 domestic retail mobile services, including 80,000 post-paid handheld customers to take its total mobile subscriber base to 16.9 million.

Overall revenue from Telstra's fixed business declined 1.5 per cent to \$3.6 billion, while fixed data revenue grew 6.7 per cent to \$1.3 billion and the decline of fixed voice revenue was contained to 7.6 per cent.

Growth and new businesses

Significant progress had been made in Telstra's international growth strategy, particularly in Asia with the acquisition of Pacnet contributing \$247 million to income growth.

We are tracking ahead of our targeted integration synergies and have successfully combined the teams of the two companies across branding, products, pricing and customer relationships.

Our telkomtelstra joint venture in Indonesia is fully operational and serving its first customers, as well as showcasing business offerings through Indonesia's first Customer Experience Centre.

International revenues from Network Applications and Services (NAS) more than doubled to \$86 million benefitting from increased scale through Pacnet.

Overall, NAS revenue increased 32.7 per cent to \$1.3 billion, with strong underlying performance across all NAS offerings and the achievement of significant contractual milestones on some major accounts. NAS has achieved more than 20 per cent revenue growth in five of the past seven half-years.

Productivity

Reported operating expenses increased 14.2 per cent to \$8.8 billion, or 11.4 per cent excluding Pacnet.

Operating expense increases were largely from new growth businesses, including Pacnet, and sales costs directly associated with revenue and customer growth in core businesses.

Telstra is on track with its productivity program, with a renewed focus on fixed costs.

We are committed to improving productivity. We are on track to reduce our full year fixed costs on a year on year basis. Adjusting for significant transactions and events, fixed costs were down \$40 million or 1.1 per cent for the half.

National Broadband Network

Telstra earned income of \$636 million under the NBN Definitive Agreements. At the end of last year, Telstra announced it had signed a Memorandum of Understanding to negotiate a significant contract for Telstra to support the NBN network build in areas currently covered by Telstra's hybrid fibre-coaxial footprint. In addition, Telstra was awarded work as one of the network operations and maintenance services providers to NBN, with work anticipated to start in March 2016.

Cash and capital management

Net cash from operating activities of \$3.7 billion was comparable to the prior period. Free cashflow from operating and investing activities was \$1.9 billion compared with \$0.3 billion. The prior period included spectrum payments of \$1.3 billion and acquisitions of \$508 million.

Telstra remains committed to its capital management strategy, underpinned by clear focus on optimising and maximising returns to shareholders, maintaining financial strength and retaining financial flexibility.

The Telstra Board of Directors resolved to pay a fully franked interim dividend of 15.5 cents per share. The interim dividend was up 3.3 per cent compared with the prior corresponding period and comparable to the FY15 final dividend.

Shares will trade excluding entitlement to the dividend on 1 March with payment on 1 April.

Outlook

Telstra's guidance for financial year 2016 remains unchanged. In 2016, Telstra expects to deliver mid-single digit income growth and low-single digit EBITDA growth. Free cashflow is expected to be between \$4.6 billion and \$5.1 billion and capital expenditure to be around 15 per cent of sales to fund increased mobile network investment. Capital expenditure as a percentage of sales in the first half was 15.2 per cent.

This guidance assumes wholesale product price stability from the beginning of the financial year and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex.

We thank you for your continued support as a shareholder and welcome your feedback. This can be made at investor.relations@team.telstra.com, via phone on 1800 880 679 or in the mail to the Telstra Investor Relations Department, Level 25, 242 Exhibition Street, Melbourne VIC 3000.

C B Livingstone

Catherine Livingstone AO
Chairman

Andrew Penn

Andrew Penn
Chief Executive Officer

2016 INDICATIVE FINANCIAL CALENDAR⁽¹⁾

Ex-dividend share trading commences	Tuesday 1 March 2016
Record date for interim dividend	Thursday 3 March 2016
DRP election date	Friday 4 March 2016
Interim dividend paid	Friday 1 April 2016
Annual Results announcement	Thursday 11 August 2016
Ex-dividend share trading commences ⁽²⁾	Wednesday 24 August 2016
Record date for final dividend	Thursday 25 August 2016
DRP Election Date	Friday 26 August 2016
Final dividend paid	Friday 23 September 2016
Annual General Meeting	Tuesday 11 October 2016

- Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).
- The ex-dividend share trading date for the final dividend reflects proposed amendments to the ASX Listing Rules associated with the implementation by the ASX of a T+2 settlement cycle in March 2016.

MANAGE YOUR SHAREHOLDING ONLINE

Shareholders can easily manage their shareholding online at www.linkmarketservices.com.au/telstra.

To access your information, you will need your SRN/HIN and postcode. Follow the prompts to log in and select from the following menu options:

Holdings – transaction history, holding balance and value and latest closing share price.

Payment and Tax – dividend payment history, payment instructions and TFN details. You can update your bank details here.

Communication – become an e-Shareholder and update postal/email addresses and communication elections here.

Shareholder Enquiries

Australian Share Register

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