

Directors' Report

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of, or during the year ended, 30 June 2012. Financial comparisons used in this report are of results for the year ended 30 June 2012 compared with the year ended 30 June 2011.

The historical financial information included in this Directors' Report that has been extracted from the Annual Report accompanying this Directors' Report has been subject to review by our Auditors.

Principal activity

Our principal activity during the financial year was to provide telecommunications and information services for domestic and international customers. There has been no significant change in the nature of this activity during the year.

Strategy Update

Telstra continues to implement its strategy to improve customer satisfaction, increase our customer base, simplify the business and invest in new growth businesses. The strategic initiatives commenced almost two years ago continue to deliver financial benefits with growth in revenue, earnings before interest, tax, depreciation and amortisation (EBITDA), net profit and strong growth in the number of customers.

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.

Review and results of operations

Information on the operations, financial position and outlook for the Telstra Group is set out on pages 3 to 22 of the Financial Highlights accompanying this Directors' Report.