

CHAIRMAN AND CEO MESSAGE

WE CONTINUE TO FOCUS ON THE STRATEGIC PRIORITIES OF IMPROVING CUSTOMER SATISFACTION; RETAINING AND GROWING CUSTOMER NUMBERS; SIMPLIFYING THE BUSINESS AND DEVELOPING NEW GROWTH BUSINESSES. THESE PRIORITIES ARE DELIVERING POSITIVE RESULTS.

Dear Shareholders,

We are pleased to present you with a review of Telstra's operations and sustainability initiatives over the 2012 fiscal year. This year we have brought together our annual and sustainability reports because we believe these two topics are interwoven. We believe that, as a business, our ability to prosper over the longer term hinges on our response to the changing social and environmental expectations of employees, customers, investors, regulators and the wider public.

KEY OUTCOMES

In fiscal year 2012, Telstra continued to deliver on its commitments to shareholders. Telstra achieved growth in sales and profit; increased market share and grew profitability in key growth products; and was able to offset declines in legacy products with growth in businesses such as mobiles and network applications and services.

This year we also announced a clear framework for capital management and how we will look at the use of cash and shareholder returns in the future. Telstra also paid a fully franked total dividend of 28 cents per share for the 2012 fiscal year which returned \$3.4 billion to shareholders.

NATIONAL BROADBAND NETWORK (NBN)

The finalisation of the National Broadband Network Agreements with the Commonwealth and NBN Co was another highlight for the year.

This followed on from the shareholder vote at our 2011 Annual General Meeting which was overwhelmingly in favour of Telstra's participation in the roll out of the NBN. The NBN Agreements are now in place and we are working closely with NBN Co in implementing them. Telstra has also launched retail and wholesale services over the NBN following successful trials in the early release sites.

2012 HIGHLIGHTS

Total revenue for the 2012 fiscal year increased by 1.1 per cent to \$25.4 billion while net profit after tax increased by 5.4 per cent to \$3.4 billion. There are a number of highlights that contributed to this result:

We recorded one of our best ever years in mobiles. We added 1.6 million domestic mobile customers, and mobile revenue grew 8.5 per cent to \$8.7 billion.

We are also changing the way that we interact with our customers. While there is more work to do in this area, the positive response to the many new customer service initiatives we have introduced shows we are making progress.

We have continued to look for ways to improve and simplify our business. Initiatives like our online and electronic bill services allow us to save costs while improving customer satisfaction.

Our growth initiatives of Network Application and Services, Media and International continue to build on our core business.