

11 August 2011

Office of the Company Secretary

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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Letter to Shareholders and Telstra Annual Review 2011

In accordance with the Listing Rules, I enclose the following letter to Shareholders and Annual Review 2011, for release to the market.

Regards



Carmel Mulhern
Company Secretary



11th August, 2011

Dear Shareholder,

On 11 August Telstra announced results for the financial year ended June 2011. We are writing to you today with an update on the results, the National Broadband Network (NBN) and the outlook for 2012.

2011 was an important year for Telstra as we made significant investments to implement a strategy based around four core priorities: to improve customer satisfaction, grow our customer numbers, simplify the business and develop growth opportunities.

Pleasingly the results show that the strategy is working. We exceeded our financial results guidance for the year and maintained a 28 cent fully franked dividend. We have seen the company return to revenue growth, and expect the momentum across the business to translate to profit growth in 2012.

In addition, we have had one of our best ever years for customer growth, have seen improvements in customer satisfaction and are already seeing the financial benefits of our simplification programme at the top and bottom line. Additionally, we have developed growth opportunities, making investments in cloud computing, implementing a digital strategy at Sensis, offering FOXTEL content across our T-Box[®] services, and restructuring the Reach network assets in Asia.

2011 results

In terms of key financial outcomes the reported results for the 12 months to June 2011 were:

- Sales revenue increased by 0.7% or \$170 million to \$24,983 million
- EBITDA declined by 6.4% or \$696 million to \$10,151 million
- In the second half, Sales revenue increased by 1.8% and EBITDA increased by 0.7%
- Net Profit After Tax declined by 17.5% to \$3,250 million
- A capex to sales ratio of 13.6%, with \$3,410 million invested in the year
- Free cash flow declined by 12% or \$748 million to \$5,477 million

However, the financial results only tell part of the story. Our initiatives to attract new customers have exceeded expectations with:

- 1.66 million new domestic mobile customers, including 914 thousand new mobile broadband customers
- 352,000 new mobile customers in Hong Kong
- 158,000 new fixed broadband customers
- 190,000 new T-Box[®] and 175 thousand T-Hub[®] services
- 659,000 new customers on bundled multi-product plans, with the total now in excess of one million.

In the year, the strong growth in our mobile customer base led to an increase in total mobile revenue of 10.7%, driven by customer growth and steady average revenues per customer. Traditional home phone, or PSTN revenues, declined by 7.9% to \$5,370 million, while retail fixed broadband revenues increased by 1.4% to \$1,594 million. IP access revenues grew by 16.2% to \$970 million and our Network Applications and Services (NAS) revenue grew 10.7% to \$1,144 million as we benefit from our capabilities in this area.

National Broadband Network (NBN)

On 23 June Telstra signed conditional Definitive Agreements with NBN Co and the Commonwealth for Telstra's participation in the rollout of the NBN. Telstra continues to value these agreements and associated policy undertakings at approximately \$11 billion in post-tax net present value terms (discounted to June 2010), consistent with the Financial Heads of Agreement announced in June 2010. The company has subsequently submitted a Structural Separation Undertaking and associated Migration Plan to the ACCC. The company is working closely with the ACCC with a view to obtaining acceptance of our Structural Separation Undertaking before the AGM.

Telstra is committed to giving shareholders an opportunity to vote on Telstra's participation in the NBN at the company's AGM on 18 October 2011. The approval of Telstra's shareholders is one of the key conditions which must be satisfied before these Agreements may be implemented.

We are pleased to have reached these important milestones and look forward to providing shareholders with an Explanatory Memorandum which will outline the basis for the Board's recommendation to shareholders.

2012 outlook

Over the past year Telstra has recorded a turnaround in operational results, with strong customer growth, lower churn, a return to revenue growth and higher market share in fixed broadband and mobile.

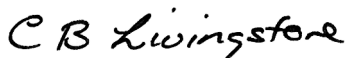
In fiscal 2012, the strategic initiatives will continue to bear fruit. The year will see productivity and other benefits from a continuing simplification programme.

For fiscal 2012, the company expects to return to full year earnings growth with low single digit revenue growth and low single digit EBITDA growth on the back of strong second half performance in fiscal 2011. Capex to sales will continue to be around 14% of sales with free cashflow of between \$4.5 and \$5.0 billion. The NBN is not expected to have a material impact on Telstra's financial results in 2012.

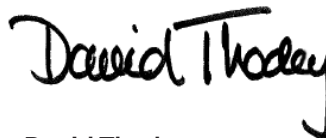
As announced in November 2010, it is also the company's intention to maintain a 28 cents fully franked dividend for fiscal 2012, subject to the Board's normal process for dividend declaration and there being no unexpected material events. The directors also remain committed to a broader review of capital management after shareholders have voted on our proposed participation in the rollout of the NBN and subject to global financial market conditions.

Retail shareholder briefings

We understand how important it is to keep our shareholders informed. As a result, Telstra's CEO, David Thodey and CFO, John Stanhope are hosting a series of retail shareholder information meetings around the country in September. Further details can be found in the accompanying Annual Review brochure, by calling 1800 131 011 or online at www.telstra.com.au/shareholdermeetings



Catherine Livingstone AO
Chairman



David Thodey
CEO

TELSTRA ANNUAL REVIEW 2011

IT'S HOW
WE CONNECT



INVESTMENT IN OUR CUSTOMER-CENTRIC STRATEGY IS WORKING, WITH MOMENTUM ACROSS THE BUSINESS

A significant strategic investment in the business was made in 2011 to support our long-term strategic priorities – to improve customer satisfaction, to retain and grow our customer numbers, to simplify the business and to invest in new growth opportunities – and we are making real progress.

EXCEEDED GUIDANCE

The results for the year ended 30 June 2011 illustrate that the business is beginning to see the benefits of the initiatives put in place over the last year with strong operating momentum across the business.

Importantly for our shareholders, we exceeded our financial guidance to the market for the last year.

RESULTS ON GUIDANCE BASIS*

	Guidance	Outcome	
Sales revenue	Flattish	+1.0%	✓
EBITDA	High single digit decline	-6.0%	✓
Capex/Sales	14%	13.6%	✓
Free cashflow	\$4.5 - 5.0 billion	\$5.2 billion	✓

* Guidance assumed wholesale price stability, no fiscal 2011 impairments to investments and excludes any proceeds on the sale of business or any impact of network restoration work following natural disasters

28 CENTS

DIVIDEND PER SHARE

As announced in November 2010, it is also the company's intention to maintain a 28c fully-franked dividend for fiscal 2012, subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

MOMENTUM TO CONTINUE IN FY12

In fiscal 2012, the strategic initiatives will continue to bear fruit. The year will see productivity and other benefits from a continuing simplification programme.

REPORTED FINANCIAL RESULTS

	Full-year Ended 30 Jun 11	YoY change
Sales revenue	\$24,983m	0.7%
EBITDA	\$10,151m	-6.4%
Attributable NPAT	\$3,231m	-16.8%
Accrued capital expenditure	\$3,410m	-1.8%
Free cashflow	\$5,477m	-12.0%
Dividend per share (cents)	28	-
Earnings per share (cents)	26.1	-16.9%

For 2012, the company expects to return to full year earnings growth with low single digit revenue growth and low single digit EBITDA growth on the back of the strong second half performance in fiscal 2011. Capex to sales will continue to be around 14% of sales with free cashflow of between \$4.5 and \$5.0 billion.

STRATEGIC PRIORITIES ARE WORKING

1.66 MILLION

NEW DOMESTIC
MOBILE CUSTOMERS

Our investment in our strategy to retain and grow customers has seen a return to EBITDA growth for all our retail business units in the second half of the year, led by the acquisition of 1.66 million new mobile customers in Australia. This translated to mobile revenues growing 10.7% to \$8,100 million in the year with customers benefiting from improved value on mobile plans and continued network quality.

659,000

BUNDLES SOLD

Fixed retail broadband revenues (including hardware) increased 1.4% to \$1,594 million, with our bundled offers and the improved value of our fixed broadband plans driving the addition of 158 thousand customers.

Since the launch of the Telstra T-Box[®] and Telstra T-Hub[®] products, we have sold more than 385 thousand devices and introduced FOXTEL[®] content to a wider audience across our T-Box IPTV service.

RETURN TO REVENUE GROWTH

PRODUCT REVENUES

	FY 2011 \$m	YoY change
Mobile	8,100	10.7%
Fixed	9,503	-4.8%
IP and data access	1,771	-0.3%
Network Applications & Services (NAS)	1,144	10.7%
Sensis	1,787	-6.4%

We now have more than 1 million customers on bundled plans, with customers attracted to the simplicity and affordability of the offers.

Fixed telephony or PSTN revenue continued to decline during the year with a decline of 7.9% to \$5,370 million which is consistent with the ongoing structural change in the industry, however the growth in our mobiles business more than offsets this decline.

Sensis faced a full year decline in sales revenue of 6.4% primarily driven by a fall of 11.4% in Yellow Pages® revenues, as advertisers shift away from print directories. Sensis has developed a digital strategy for long term profitable growth and to transform Sensis into a local digital media company.

We have also seen our customer satisfaction improve and while there is still a lot to do, these results provide us with comfort that we are heading in the right direction and we continue to have an incredible drive in the business to get things right the first time.

Over the coming years we will continue work to on customer satisfaction and simplification of the business for the benefit of our shareholders and customers.

CORPORATE CITIZENSHIP

\$1 MILLION

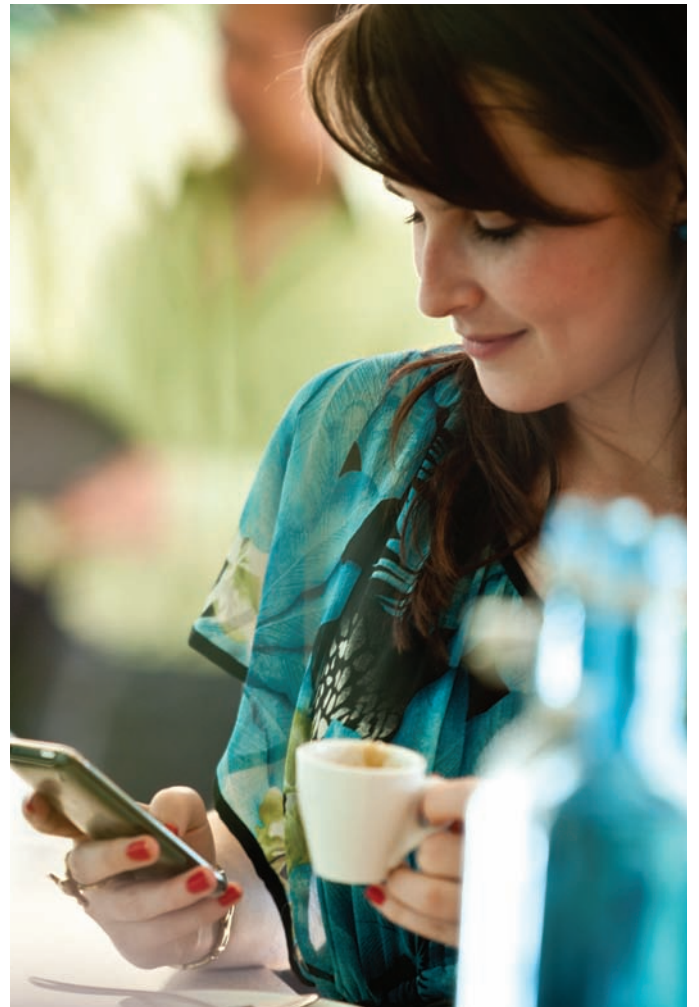
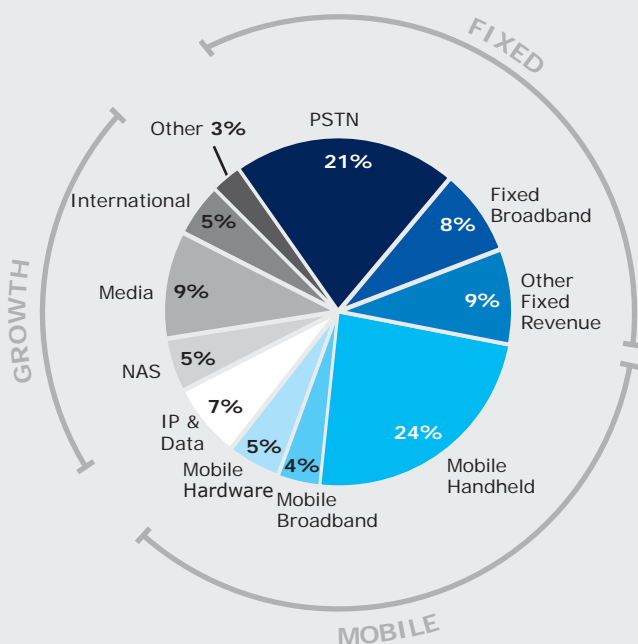
DONATIONS FOR DISASTER
RELIEF APPEALS

Telstra continues to play a unique role supporting Australia and Australians through good times and bad. Some of our actions over the past year include assisting one million low income customers every month through our Access for Everyone programs, contributing over \$1 million in donations from Telstra and our employees for disaster relief appeals, providing more than 28,000 older Australians with face to face training on how to use mobile phones and the internet and providing more than 114,000 fixed lines at special rates to our charity and not for profit customers.

MORE THAN
5 MILLION

CALLS OUT OF HOURS SINCE
24 X 7 FOR SALES & SERVICES

FY11 PRODUCT SALES REVENUE BREAKDOWN



WE UNDERSTAND THAT THE SUCCESS OF OUR BUSINESS AND THE WELFARE OF OUR COMMUNITIES IN WHICH OUR PEOPLE LIVE AND WORK ARE INTERDEPENDENT. THAT'S WHY WE ARE ACTIVE IN LOCAL COMMUNITIES RIGHT ACROSS THE NATION.

As a company that connects with nearly every Australian in some way – be they customers, shareholders or employees – we have the opportunity to make a real difference in the communities in which we operate.

Our people and communities were especially impacted by the devastating natural disasters this year. From the floods in Queensland, New South Wales, Victoria and Tasmania to the cyclones in Far North Queensland and the bushfires in Western Australia. All of these events had an inevitable impact on the performance of our networks and our ability to provide services to customers.

Following each event and as soon as it was safe to do so, Telstra staff were in the field restoring services, assisting customers and supporting communities.

Our assistance included the establishment of communications services in evacuation centres, providing phone cards and handsets, distributing satellite handsets and enabling payphones to provide free calls in affected areas.



TELSTRA TAKES CYBER-SAFETY SERIOUSLY. AS TECHNOLOGY CONTINUES TO CHANGE THE WAY AUSTRALIANS CONNECT TO EACH OTHER WE WANT OUR CUSTOMERS TO HAVE THE CONFIDENCE TO KNOW HOW TO TACKLE THEIR OWN ONLINE CHALLENGES. THIS IS WHY WE REVAMPED OUR INTERNET AND CYBER-SAFETY WEBSITE WWW.TELSTRA.COM.AU/CYBER-SAFETY

We recognised the growing thirst for information relating to various cyber-safety topics including cyber-bullying, online scams and identity theft from our customers and the community. To help eliminate some of the time needed to find answers on how to control online risks we created a repository website that provides people (regardless of their age and online experience level) with easy and direct access to credible content, useful links and advice. New features to the site include a variety of tips relevant to each age-group, short videos and written case-studies from online experts and everyday people, such as Adam Goodes from the Sydney Swans and The Alannah and Madeline Foundation's cyber-safety manager.

VISIT OUR WEBSITE | WWW.TELSTRA.COM.AU/SHAREHOLDERMEETINGS
12 SEPTEMBER - 19 SEPTEMBER

TELSTRA RETAIL SHAREHOLDER INFORMATION MEETINGS

WITH THE CEO AND CFO

MONDAY 12 SEPTEMBER

- 10.00AM GRAND CHANCELLOR HOTEL, 1 DAVEY STREET, **HOBART**
- 1.00PM RYDGES LAKESIDE HOTEL, 1 LONDON CIRCUIT, **CANBERRA**

TUESDAY 13 SEPTEMBER

- 10.00AM MERCURE HOTEL, GHERINGHAP STREET, **GEELONG**
- 2.00PM HOTEL SOFITEL, 25 COLLINS STREET, **MELBOURNE**

WEDNESDAY 14 SEPTEMBER

- 10.00AM HILTON HOTEL, 190 ELIZABETH STREET, **BRISBANE**
- 3.00PM NOVOTEL TWIN WATERS, OCEAN DRIVE, TWIN WATERS, **SUNSHINE COAST**

THURSDAY 15 SEPTEMBER

- 10.30AM HYATT REGENCY BALLROOM, 99 ADELAIDE TERRACE, **PERTH**
- 10.00AM CLUB MACQUARIE, 458 LAKE ROAD, **ARGENTON, NEWCASTLE**

FRIDAY 16 SEPTEMBER

- 10.00AM HILTON HOTEL, 488 GEORGE STREET, **SYDNEY**

MONDAY 19 SEPTEMBER

- 10.00AM STAMFORD PLAZA HOTEL, 150 NORTH TERRACE, **ADELAIDE**

PLEASE REGISTER AT YOUR LOCATION: DIAL 1800 131 011 & FOLLOW THE PROMPTS OR EMAIL SHAREHOLDER.MEETINGS@TEAM.TELSTRA.COM

- For those not available to attend these sessions, a webcast of the meeting in Canberra on Monday 12 September at 1pm (AEST) will be available at our website at www.telstra.com.au/shareholdermeetings
- This is strictly a retail shareholder information session and an opportunity for shareholders to ask questions of management. It is not open to the media. We expect the sessions to last approximately two hours.

INDICATIVE FINANCIAL CALENDAR*

Ex-dividend share trading commences	Mon 22 Aug 2011
Final dividend paid	Fri 23 Sep 2011
Annual General Meeting	Tue 18 Oct 2011
Half Year Results announcement	Thu 9 Feb 2012
Ex-dividend share trading commences	Mon 20 Feb 2012
Interim dividend paid	Fri 23 Mar 2012
Annual Results announcement	Thu 9 Aug 2012
Ex-dividend share trading commences	Mon 20 Aug 2012
Final dividend paid	Fri 21 Sep 2012
Annual General Meeting	Tue 16 Oct 2012

* Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).

CONTACT DETAILS

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TELSTRA CORPORATION LIMITED

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Incorporated in the Australian Capital Territory
Telstra is listed on Stock Exchanges in Australia and in New Zealand (Wellington)

WEBSITE

Telstra's investor relations home page:
www.telstra.com.au/investor