

5 September 2005

The Manager

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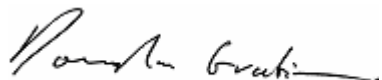
ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra earnings guidance

In accordance with the listing rules, I attach an announcement for release to the market.

Yours sincerely

A handwritten signature in black ink, appearing to read "Douglas Gration".

Douglas Gration
Company Secretary

5 September 2005

Telstra earnings guidance

The Telstra Board and management have reviewed the company's trading results for the first two months of the current financial year and considered preliminary data emerging from the CEO's strategic review of management and operations. Also, Telstra management was briefed by Department of Communications, Information, and the Arts (DCITA) late last week on their proposal to expand the regulation of Telstra. As a result, the Board decided today to clarify the earnings outlook for the company.

The company's earnings before interest and tax in 2005/06 are expected to decline by 7-10 percent compared to 2004/05 as a result of accelerating declines in PSTN revenues and softening growth in the mobiles market due to aggressive pricing and "bucket plans". The accelerating decline in PSTN revenues reflects the influence of two forces: (1) downward pressures that are industry-wide, which management will address in its strategic review, and (2) regulatory decisions that result in direct material reductions in revenues.

In addition to the costs of regulation that have been widely addressed, revenues lost to regulatory decisions are large and growing each year. In 2005/06, regulatory price reduction decisions that have already been made or are pending are likely to cost Telstra more than \$850 million in lost revenues and have been factored into the company's earnings outlook.

While growth rates in broadband and advertising continue to be strong, they are not sufficient in absolute terms to offset the decline in PSTN revenues.

There are two pending decisions that are material for Telstra: (1) operational separation as briefed last week by DCITA and (2) pricing for the unbundled local loop, which includes proposed ULL prices that are de-averaged and below Telstra's costs. Telstra will inform the market when it is in a position to quantify the financial and operational impact of these decisions.

Telstra's management team has introduced a number of immediate measures to address the deterioration in the company's earnings outlook, including a freeze on recruitment and deferral of all non-customer demand-driven discretionary capital expenditure. Management will introduce further measures to drive earnings growth and reduce costs as the CEO completes his strategic review of the company's operations.

Telstra's CEO, and the Board agrees, has said that "Telstra's ability to halt and reverse the decline in earnings in future years depends not only on effective management but also on regulations and administrative practices that do not continually impair shareholder value with initiatives like operational separation and below-cost de-averaging that takes away revenues used to support services to high-cost areas in regional and remote Australia."

Telstra, consistent with its duties to its shareholders, will continue to inform shareholders of material developments that affect the company's financial outlook.