Telstra is now three years down the transformation road. We are transforming from a regulation-centric incumbent into a fully integrated, global media-communications company. We have invested in building next generation networks and the IT transformation currently underway will bring this media-comms vision to life.

We have achieved a lot in just three years and we have significantly exceeded what was expected when we began. Our end-to-end transformation has the objective of being a global leader… it’s a journey and we’re not done yet.

We reported strong financial results that achieved or bettered our stated 2008 guidance:
- Total Revenue grew 4.7% to $24.8 billion, ahead of our guidance of 3% to 4%;
- Earnings before interest, tax, depreciation and amortisation (EBITDA) grew 5.6%, also above our guidance of 4% to 5%;
- Profit after tax and minority interests increased 13.5% to $3.7 billion;
- Free cash flow increased 33% to $3.9 billion; and
- We maintained our fully franked final ordinary dividend at 14 cents per share, bringing our full year ordinary dividend to 28 cents per share fully franked.

Strong sales growth continued across all retail business units, Sensis and key product segments, including broadband and mobiles. Sales revenue for financial year 2008 was up 4.2% to $24.7 billion, increasing $1 billion for the second consecutive year.

We are also transforming our culture, products, service offerings and channels to improve our customer experience. An illustration of our channel transformation is the launch of our five world-class T[Life]™ stores during the year where customers can see, touch, hold and interact with live devices. Furthermore we are planning to revitalise 88 stores in the 2009 financial year.
Mobile data and our wireless broadband offering is driving much of the growth in our mobiles business. Wireless broadband in just two years has grown to a half-billion dollar business. We now have 588,000 subscribers generating average revenue per user (ARPU) of more than $90 per month. Customers are also using their handset to browse the internet, send emails, download music and games. This has seen other data revenue increase by 34% to over $330 million this year.

Broadband

For the second year in a row, Telstra has again delivered the double of growing retail broadband market share and ARPU. BigPond saw its market share increase two percentage points in the year to 49% while ARPU increased 2.9% to $53.02. This result has been delivered despite the intense price competition in the market and is a true sign that customers appreciate the value of BigPond's services and the greater speeds, reliability, coverage and content.

Telstra now has 70% of customers using high-speed “Liberty” plans. Liberty plans provide customers a high data allowance with bill certainty. The growth in users on these high-speed plans follows our investment in the roll-out of ADSL 2+ services which was completed in April. This provided an upgrade to an additional 907 exchanges serving 2.4 million homes and businesses.

Expenses

Goods and services purchased remained steady, increasing 0.6% to $5,181 million. Our increased sales volume in a wide range of products and services has had a direct impact on this category. In particular, subscriber acquisition and re-contracting costs (SARCs) which declined by 19% to $149 per customer.

Other expenses increased 6.5% to $5,246 million. A significant driver of this was due to IT Professional Services expense which increased by $147 million or 35% as we worked towards the migration of 3.3 million customers onto our new billing systems announced today.

Balance Sheet

Selected items from the BALANCE SHEET

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($m)</td>
<td>($m)</td>
<td>($m)</td>
</tr>
<tr>
<td>Current assets</td>
<td>5,513</td>
<td>5,301</td>
<td>212</td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td>24,311</td>
<td>24,607</td>
<td>(296)</td>
</tr>
<tr>
<td>Intangible and other</td>
<td>8,097</td>
<td>7,929</td>
<td>168</td>
</tr>
<tr>
<td>Total assets</td>
<td>37,921</td>
<td>37,837</td>
<td>84</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>25,676</td>
<td>25,257</td>
<td>419</td>
</tr>
<tr>
<td>Net assets/equity</td>
<td>12,245</td>
<td>12,580</td>
<td>(335)</td>
</tr>
</tbody>
</table>
PSTN

The PSTN revenue decline of 3.2% is the lowest PSTN revenue decline in four years. Retail (consumer and business) access lines grew for the 14th consecutive month in June, increasing 87,000 for the full year after a decline of 5,000 last financial year. However, wholesale line losses to unconditioned local loop (ULL) services led to a total line decline of 485,000 in the year.

Almost 600,000 residential customers are on one of Telstra’s HomeLine® subscription pricing plan. These plans, together with other market-based management initiatives have helped us defy the trends of our global peers and slowed the overall fixed line decline.

Retail Segments

We manage our business on a segment basis and all of Telstra’s retail business segments have contributed to the strong 2008 result.

Telstra’s Consumer segment (TC&C) saw sales revenue grow 6.1% to $10 billion:
• PSTN revenue grew 0.5% as 56,000 access lines were added;
• Internet revenues increased by 38% to $1.5 billion as more subscribers were added, and more customers opt for high-speed plans.

In Telstra Business (TB), sales revenue grew by 8.6%:
• Mobile services revenues increased by 19.5% with strong growth in mobile voice and data revenue;
• Fixed-line revenue grew by 1% as Telstra Business added 30,000 access lines.

Telstra Enterprise and Government (TE&G) had another strong year with revenue growth of 3.6%. This is the strongest performance since competition began and has been achieved by:
• Winning new contracts and driving value for customers in an integrated Internet Protocol (IP) world;
• Over 1 million mobile customers has seen mobile revenue grow at 26%. Non-SMS data revenue grew by 74% and represents 29% of total mobile revenues.

Sensis

Yellow™ directories revenue increased 8.1% to $1.3 billion with print revenues returning to growth. White Pages® directories revenue experienced double digit growth of 11.5% to $369 million. Digital Media, including Whereis® revenue was up 32% and continues to provide new revenue stream opportunities.

Our presence in China expanded this year with the acquisition of two internet businesses in the fast-growing online auto and digital device advertising sectors. Together with SouFun, a leading on-line real estate and home furnishings website acquired in August 2006, Telstra can now boast a leading position in three key online advertising verticals which we expect to provide further growth in the years to come.

Cash Flow

Selected items from the CASH FLOW STATEMENT

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-year ended 30 June</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>operating activities</td>
<td>8,844</td>
<td>8,520</td>
<td>324</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(4,989)</td>
<td>(5,621)</td>
<td>632</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>3,855</td>
<td>2,899</td>
<td>956</td>
</tr>
</tbody>
</table>

Free cash flow increased $956 million to $3,855 million mainly due to:
• An increase in our earnings and lower cash capital expenditure as we have now passed the peak transformation spend period;
• A $130 million distribution from our FOXTEL partnership.

We used our free cash flow to:
• Pay dividends to our shareholders totalling $3.5 billion;
• Pay finance costs of $1.2 billion to our debt holders.
Telstra’s commitment to Australia

“At Telstra we have the view that if it’s good for Australia it’s also good for Telstra. It makes sound business sense to measure the full impact of our business decisions on the larger community and identify ways that we can expand those benefits,” Sol Trujillo, Chief Executive Officer, Telstra.

At Telstra, our commitment to corporate responsibility begins with a simple and straight-forward commitment to principled decision-making in all that we do.

As Australia’s largest telecommunications company, we are well placed to have a measurable and positive impact on the community, environment, economy, and the larger society.

Telstra’s commitment to energy conservation received the 2008 ACOMMS Environment Responsibility Award on 6 August. Our innovative energy, paper use, and water management conservation plan has reduced our energy, paper and water usage, reducing costs and giving back to the environment.

“By reducing the environmental impact of our operations, we provide better value for our shareholders, reduce ongoing costs, efficiently use precious resources, and initiate programs that benefit the wider community,” Greg Winn, Chief Operations Officer, Telstra.

Businesses of all sizes are using Telstra’s next generation networks in innovative ways to save time and fuel, and to increase productivity. For example, Australian scientists monitoring the health of the Great Barrier Reef are using Telstra’s Next G™ network to receive data and images in real time from sensors located on the reef up to 70 kilometres offshore.

“We take a broad view of corporate responsibility – one that includes economic, commercial, social and environmental dimensions,” Dr Phil Burgess, Group Managing Director, Public Policy & Communications, Telstra.

Telstra plays a key role in the community through strategic philanthropy, community investment, volunteer efforts, and working with community stakeholders. Telstra is involved with the community at all levels because we know it is important to participate in and contribute to strengthening the civic life of the communities in which we operate.

For example, Telstra’s philanthropic work, through the Telstra Foundation, has committed $24.5 million through over 4,400 projects to help make a positive and lasting difference to the lives of children and young people since 2002.

A strong civil society is good for democracy and good for the future prosperity of Australia. What is good for Australia is ultimately good for Telstra.

Telstra’s efforts have:

• taken the equivalent of more than 8,000 cars off our roads for the year by reducing carbon emissions by more than 38,800 tonnes through Telstra’s energy conservation plans;
• saved 87 million litres of water, the equivalent of 35 Olympic sized swimming pools, through the introduction of Telstra’s water management plan;
• reduced carbon emissions by turning off Telstra’s corporate screen savers, which saves around 646 tonnes annually;
• helped businesses reduce their carbon emissions through the innovative use of next generation networks for teleworking, video conferencing, and environmental sensor transmissions;
• given $750,000 per year to local community groups through Telstra’s Kids Fund for items like books, sports equipment, uniforms, and musical instruments;
• put a spotlight on cyber safety through the Telstra Foundation’s $3 million program to help children develop the skills to be safe when online and using mobile phones;
• helped older Australians learn how to use mobile and internet technology to improve their communication and social interaction with the $3 million Telstra Connected Seniors program; and
• reduced the average distance travelled by Telstra communications technicians by six per cent thanks to Telstra’s Trimble GeoManager which integrates in-vehicle hardware, GPS, internet and wireless network technologies.

More corporate responsibility results will be announced in Telstra’s Corporate Responsibility Report in October 2008.

Smarter, greener, together, for Australia