13 August 2008

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ELECTRONIC LODGEMENT

Dear Sir or Madam

CEO Letter to Shareholders and 2008 Full Year Shareholder Update

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

Yours sincerely

Carmel Mulhern
Company Secretary

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Telstra Corporation Limited
ABN 33 051 775 556

13 August 2008

Dear Shareholder

I am writing to report Telstra's strong, **world-leading results** for the year to 30 June 2008. We met or exceeded our financial guidance for the third consecutive year. Our turnaround continues to gain financial and operational momentum as we passed three years in our five-year, end-to-end transformation of your company. **Profit after tax and minority interests increased 13.5%** to $3.7 billion and your Board has approved a fully franked ordinary final dividend of 14 cents per share.

Since we began the transformation in 2005, we have invested billions of dollars to redefine Telstra's business from a slow-moving, technology-lagging, regulation-centric incumbent operator to a **fully integrated telecommunications business** with next generation networks. Our performance leads global peers as we continue an evolution to a media-communications company. Our investments in Next G™ mobile broadband and Next IP™ core networks are spearheading our growth in new revenue streams.

World-leading performance

Our achievements in key product areas include:

- **Mobile services revenue growth**, including voice, SMS, wireless broadband and other data revenue, has accelerated from mid single digit to double digit levels since the launch of the Next G™ network in October 2006. This year we grew 12.3%, well ahead of our domestic and global peer group;
- **Retail broadband** market share has grown for seven consecutive halves to 49% at June 2008. Once again we defied the trends of our global peers by growing market share by 2 percentage points and increasing average revenue per user (ARPU) by 2.9%;
- **PSTN (fixed-line)** revenue decline was slowed to 3.2%, the lowest PSTN revenue decline in four years as we continue to achieve world-leading results in managing the migration from PSTN to mobile;
- **Internet Protocol (IP) revenues** exceeded revenues from our legacy data products for the first time in the second half as we redefine the business away from a simple "connectivity" model to a "solutions" model for business customers that provide increased reliability, value and productivity;
- **Directories, advertising, and transactions business** operated by Sensis, grew its print directories revenues by 5.4% - again reversing global trends toward negative growth.

Our Australian customer-facing retail business units continued their strong growth momentum, with **domestic retail sales revenue** growing 5.9%. Our Enterprise & Government unit, for example, achieved its best organic revenue growth since competition was introduced in the last decade. The entire retail result is proof that customers are responding to our superior value proposition and this is translating into our financial performance.

We continued to improve **customer service** despite the challenges of severe weather conditions in the past year. Our network reliability is evidenced by the 35% fall in network trouble reports since 2005.

Our **IT transformation** is unmatched in terms of complexity, breadth and speed - across PSTN, broadband, wireless and FOXTEL. It will replace a fragmented view of the customer with a single, holistic view, permitting a more responsive approach to customer relations that will greatly improve the customer experience. We have successfully migrated 3.3 million consumer customers and 4.3 million services. For those customers, we have moved from managing their data across 74 billing, product and ordering systems to just three. We have processed hundreds of thousands of orders and millions of bills on the new platform. We process more than 4 million call records per day on the new platform. This has all been achieved without breaking our commitment to minimize interruptions to either our customers or the wider business. We are on track to complete the consumer migration by the end of 2008, and we start migrating business customers this month.

In the past year, Telstra expanded its **presence in China**. We acquired a 55% stake in two internet businesses with leading positions in the fast-growing Chinese online auto and digital device advertising sectors. These acquisitions complement our strong position in the online business for real estate sales/leasing and home furnishings achieved by the growth of previously acquired SouFun, which will be in 100 cities by year's end.

Our **technology leadership** was in evidence today when we announced an exciting innovation at BigPond that allows users to download music to most music players via a few simple clicks. In subscription TV, FOXTEL, launched high-definition (HD) television in June and has already signed-up almost 40,000 subscribers. Later this year, our global mobile leadership will get another boost when we offer peak network download speeds of 21 megabits per second (Mbps) on our Next G™ network.

Financial Results

Our **sales revenue** grew by 4.2% to $24.7 billion, a $1 billion increase for the second consecutive year, reflecting the strong growth across the business. For the third consecutive half-year, mobile services revenue grew at double digit rates. Our 12.3% rise for the year led our global peers.

Our **profit after tax** and minority interests grew 13.5% to $3.7 billion. Our reported earnings before interest and tax (EBIT) grew 7.7% to $6.2 billion as the transformation momentum drove the financial turnaround. Excluding the accelerated depreciation of $77 million at our Hong Kong business, CSL New World, EBIT growth was 9.1%.

Our **total expenses** (including depreciation and amortisation) grew in line with previous advice at 3.3% - the lowest yearly expense growth in 4 years. The growth was driven by a combination of higher redundancy costs, costs linked to the rise in mobile and broadband sales, IT transformation-associated expenses and higher bad debts due to higher sales volumes.

Our **increased earnings** helped us generate $3.9 billion in free cash flow an increase of almost $1 billion. This provides further evidence the transformation is delivering on our commitments. A detailed analysis of the financial results is provided in the accompanying Shareholder Update.

Outlook for the 2009 and 2010 financial year

We outlined our **guidance** to the market for financial year 2009* which includes total revenue growth of 3% to 4%, EBITDA growth of 6% to 7% and EBIT growth of 6% to 8%.

In addition, we updated the **long-term management objectives** for financial year 2010:*

- Revenue growth capital annual growth rate (CAGR) from financial year 2005 to financial year 2010 increases from 2.5% to 3% to 3% to 4% while EBITDA growth (CAGR) increases from 2.5% to 3% to 3% to 3.5%;
- Opex growth guidance increases from 2% to 3% to 4% to 5% and Capex/Sales guidance is increased to around 14%;
- EBITDA margin of 46% to 48% and free cash flow $6 to $7 billion are being maintained.

Telstra's Board of Directors resolved to pay a fully franked final ordinary **dividend** of 14 cents per share, representing a total payment of $1.7 billion. The dividend is payable on 26 September 2008. This takes the fully franked ordinary dividend for the year to 28 cents per share.

We are working hard to **deliver on the promises** made to you back in November 2005 to transform your company – by building next generation networks that are letting Australians connect like never before, generating new revenues for Telstra as they give new choices to consumers and real productivity benefits to Australian business; redefining our business in terms of integration; and deepening our knowledge of customers so we can respond to their needs with improved service and tailored product experiences. You are now benefiting from the momentum that is achieving world-leading results in our sector that we reported to the market today … I am proud of our team here in Australia and elsewhere in the world. For further information, please contact us at investor.relations@team.telstra.com.

Yours sincerely

Solomon D. Trujillo
Chief Executive Officer

*Guidance based on reported numbers and our current investment plan (excludes any potential national broadband network investment).

Full-year **Shareholder Update 2008**

Telstra Transformation: Redefining the Business

"The transformation is a bold strategy and we are delivering results… we are resetting and redefining global expectations as to what is possible." Sol Trujillo, Chief Executive Officer, Telstra

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.

TRANSFORMATION: DELIVERING RESULTS

- Next G™ network: 99% population coverage and > 2 million sq km
- Next IP™ network: 600% bigger than nearest competitor
- Retail sales revenue grew +5.9%
- Mobile services revenue growth almost tripled from December 05
- 47% 3G mobile penetration
- Retail broadband market share increased by 2 percentage points to 49%
- 588,000 Wireless Broadband subscribers generating ~$90 ARPU per month
- 87,000 retail PSTN lines added

We reported strong financial results that achieved or bettered our stated 2008 guidance:

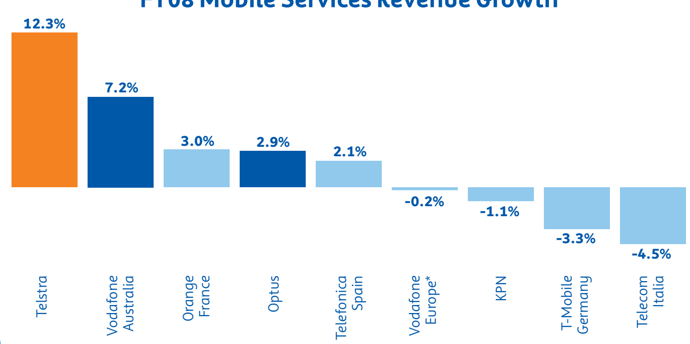
- Total Revenue grew 4.7% to $24.8 billion, ahead of our guidance of 3% to 4%;
- Earnings before interest, tax, depreciation and amortisation (EBITDA) grew 5.6%, also above our guidance of 4% to 5%;
- Profit after tax and minority interests increased 13.5% to $3.7 billion;
- Free cash flow increased 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.

Telstra Share Price relative to the ASX 200

FY08 Mobile Services Revenue Growth



Source: Company reports. *Vodafone Europe: June Quarter

Strong revenue growth… hitting targets

FINANCIAL HIGHLIGHTS

Full-year ended 30 June	**2008 ($m)**	2007 ($m)	Change ($m)	Change %
Sales revenue	**24,657**	23,673	984	4.2
EBITDA	**10,416**	9,861	555	5.6
EBIT	**6,226**	5,779	447	7.7
Free cash flow	**3,855**	2,899	956	33.0
Ordinary dividends (cents per share)	**28**	28	–	–

Mobiles

12% **Mobile services revenue increased 12.3% driven by growth in mobile data. Non-SMS data revenue accounts for 57% of mobile services revenue growth.**

Customers continue to value the superior speeds, unmatched coverage and unique content on the Next G™ network. Telstra has over 9.3 million mobile subscribers of which 47% are 3G. As a result of our investment in the Next G™ network, and the growth in subscribers, our mobiles business experienced its third half of double-digit revenue growth. We have superior peak network downlink speeds of 14.4 megabits per second (Mbps) and we're going to be increasing that to 21Mbps by the end of this year in addition to delivering more innovative content, products and services. No other telecommunication's company around the world can offer 3GSM speeds faster than Telstra's.

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

49% **Retail broadband revenue increased 49% to $1.8 billion, market share increased two percentage points to 49% and ARPU increased.**

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

Selected items from the **INCOME STATEMENT**

Full-year ended 30 June	**2008 ($m)**	2007 ($m)	Change %
Labour	**4,158**	4,017	3.5
Goods and services purchased	**5,181**	5,151	0.6
Other expenses	**5,246**	4,924	6.5
Total operating expenses	**14,585**	14,092	3.5
Depreciation and amortisation	**4,190**	4,082	2.6
Total expenses	**18,775**	18,174	3.3

Total labour expenses (including redundancy) increased 3.5% to $4,158 million with higher redundancy costs as we continue to reduce our workforce. The total workforce declined by 2,677 in the year.

Labour (excluding redundancy costs) increased 1% due to higher wages and sales commissions and incentives.

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**

Full-year ended 30 June	**2008 ($m)**	2007 ($m)	Change ($m)
Current assets	**5,513**	5,301	212
Property, plant & equipment	**24,311**	24,607	(296)
Intangible and other	**8,097**	7,929	168
Total assets	**37,921**	37,837	84
Total liabilities	**25,676**	25,257	419
Net assets/equity	**12,245**	12,580	(335)

PSTN

-3.2% **PSTN revenue decline slowed further and we continued to add retail customers, defying the trends of our global peers.**

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.

Sensis

8.1% **Sales revenue increased 8.1% to $2.1 billion, driven by Yellow™ and White Pages® directories and Digital Media, which includes SouFun.**

Yellow™ directories revenue increased 5.8% 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.

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:

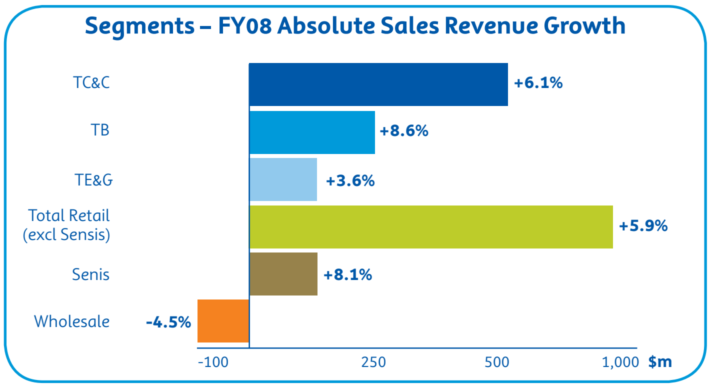
- PSTN revenue grew 0.5% as 56,000 access lines were added;
- Internet revenues increased by 38% to $1.5 billion as more subscribers were added, and more customers opt for high-speed plans.

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.



Total assets increased $84 million due to the net impact of:

- A $606 million increase in intangibles assets due to the development of new billing systems as part of our IT transformation program;
- A $136 million increase in other current assets driven largely by the increased trade debtors associated with the increase in sales revenue during the year;
- Offsetting this was a reduction in Telstra's defined benefit surplus of $632 million due to a lower investment return in fiscal 2008.

The increase in total liabilities of $419 million was due to the net impact of:

- A $1,137 million increase in total borrowings mainly due to new borrowings, principally a $1 billion 5 year bank loan issued in November 2007 and other short-term borrowings used to help fund our transformation capital expenditure requirements;
- Other current liabilities decreased by $585 million mainly the result of lower accruals and payables following the higher capital activity undertaken at the end of the 2007 financial year, along with lower current and deferred tax liabilities.

Cash Flow

Selected items from the CASH FLOW STATEMENT

Full-year ended 30 June	**2008 ($m)**	2007 ($m)	Change ($m)
Net cash provided by - operating activities	**8,844**	8,520	324
Investing activities	**(4,989)**	(5,621)	632
Free cash flow	**3,855**	2,899	956

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

Shareholders be aware –unsolicited share offers are out there

Telstra shareholders should be alert to a potential offer to purchase their shares at below market rates. Persons who legally acquire a copy of a public share register may write to shareholders offering to purchase their shares, usually at a rate below the current market value. Shareholders who receive these offers should carefully read the materials, consider obtaining their own financial advice and compare the offer to the current value of their shares on the open market. You can find the current value of Telstra shares at www.asx.com.au. Shareholders should also be aware that there are other opportunities to sell their shares at market value. Contact the Share Registry on 1300 88 66 77 for more information.

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

Telstra's interactive advocacy website:
www.nowwearetalking.com.au

Indicative Financial Calendar

Ex-dividend share trading commences	25 Aug 2008
Record date for final dividend	29 Aug 2008
Final dividend paid	26 Sep 2008
Annual General Meeting	21 Nov 2008
Half Year Results announcement	26 Feb 2009
Ex-dividend share trading commences	6 Mar 2009
Record date for interim dividend	13 Mar 2009
Interim dividend paid	9 Apr 2009
Annual Results announcement	13 Aug 2009
Ex-dividend share trading commences	24 Aug 2009
Record date for final dividend	28 Aug 2009
Final dividend paid	25 Sep 2009
Annual General Meeting	4 Nov 2009

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