20 September 2007

The Manager
Company Announcements Office
Australian Stock Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Shareholder Update 2007

In accordance with the listing rules, attached is a copy of an announcement for release to the market.

Yours sincerely

Claire Elliott
Acting Company Secretary

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

Telephone 03 9634 6400
Facsimile 03 9632 3215
imagine
Changes to the way we communicate with our shareholders
Recent amendments to the Corporations Act in June 2007 allow companies to provide their annual reports to shareholders on the internet rather than by hard copy.

Telstra is committed to providing our shareholders with timely information on a regular basis. We will continue to communicate with our shareholders around key events such as results announcements as well as other shareholder mailings throughout the year. We will also continue to make our Annual Report and other shareholder communications available on our Investor Relations website at www.telstra.com.au/abouttelstra/investor.

Starting with the 2007 Annual Report we will no longer post you a hard copy of the statutory Annual Report unless you specifically ask us to do so. To receive a hard copy statutory Annual Report (free of charge), visit our Share Registry’s website www.linkmarketservices.com.au/telstra, choose the “Communication Options” menu and follow the prompts. Alternatively you can call our Share Registry on 1300 88 66 77 and request a hard copy Annual Report.

AGM - 7 November 2007
Telstra’s Annual General Meeting will be held on Wednesday 7 November 2007 in Sydney. The Notice of Meeting will contain details about the location and meeting time.

Investor Day – 1 November 2007
Further information on investor day will be available on the Telstra Investor Relations website.

Financial calendar
Refer to the inside back cover for the indicative financial calendar for 2008.

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Telstra is delivering on its vision to provide customers a seamless, one-click, one-touch, one-screen, one-command real-time integrated experience across all devices and platforms – allowing them to live their life, their way.

Telstra is inviting customers to Imagine the Possibilities™ – to save time, overcome distances and use any device. Imagine people working together without being together. Imagine listening to email and reading voicemail. Imagine a new paradigm in health care – being diagnosed, analysed and monitored remotely. Imagine a virtual classroom with educational opportunity no longer a function of geographic proximity. Imagine a small business with a global market. Imagine watching a movie seamlessly as you move from your TV to your mobile to your computer.

Only Telstra is developing and deploying the network and product technologies to give all Australians the power to turn imagination into reality and do more things in more places. Only Telstra is building a comprehensive portfolio of services and entertainment that keeps Australians closer to everything important to them at home, at work, and on the go.

Telstra is changing the game in Australia – evolving into an integrated media-comms company.
# 2006/2007 – The year that was

## July 2006
- 18 July: Telstra launches five new BusinessLine plans for small to medium business customers

## August 2006
- 7 August: Fibre-to-the-node (FTTN) discussions with ACCC reach impasse
- 10 August: Telstra announces 2.7% increase in sales revenue and $3.2 billion profit for 2005/2006
- 11 August: ACCC issues interim determination reducing the ULLS price in band 2 to $17.70
- 21 August: Telstra revises 2006/2007 financial guidance to reflect the ACCC’s reduction to ULLS access pricing in band 2
- 24 August: Telstra launches $50 million state-of-the-art integration laboratory
- 25 August: Government announces its intention to offer in the order of $8 billion of Telstra stock to retail and institutional investors in the T3 share offer
- 31 August: Telstra acquires a 51% shareholding in SouFun for US$254 million and divests Australian Administration Services (AAS) for A$235 million

## September 2006
- 21 September: Telstra pays final 2005/2006 ordinary dividend of 14 cents per share

## October 2006
- 6 October: Telstra Investor Day
  - Telstra launches the Next G™ network, the world’s largest and fastest national mobile broadband network
- 11 October: Telstra launches FOXTEL By Mobile™ on Next G™ mobiles, delivering 12 channels
- 27 October: Telstra offers assistance to drought-affected farmers

## November 2006
- 10 November: BigPond celebrates its 10th anniversary with the launch of national high-speed broadband based on ADSL2+ technology
- 14 November: Telstra Annual General Meeting (AGM)
- 20 November: T3 instalment receipts list on the Australian Stock Exchange (ASX)

## January 2007
- 24 January: Telstra launches High Court action to enforce shareholders’ constitutional rights

## February 2007
- 15 February: Telstra announces $1.7 billion profit for first half of 2006/2007
- 15 February: Telstra super charges Next G™ network speeds from 3.6 Mbps to 14.4 Mbps (peak) and increases the base station range to 200 kilometres at selected sites
- 21 February: Telstra launches Broadband Australia Campaign (BACk Telstra)

## March 2007
- 9 March: BigPond enters the "Second Life" virtual world
- 20 March: Telstra launches English version of SouFun
- 28 March: Telstra announces the construction of a 9,000 kilometre Sydney-Hawaii submarine cable
- 30 March: Telstra pays 2006/2007 interim ordinary dividend of 14 cents per share

## April 2007
- 23 April: Telstra ADRs delisted from the New York Stock Exchange (NYSE)
- 26 April: Telstra launches Next IP™ network which, together with the Next G™ network, is the world’s largest fully integrated wireline and wireless national Internet Protocol (IP) network

## May 2007
- 21 May: Telstra launches Next G™ pre-paid service
- 31 May: Telstra launches purpose-designed Learning Academy in Melbourne

## June 2007
- 6 June: Telstra launches purpose-designed Learning Academy in Sydney
- 27 June: Telstra Business opens first dedicated Business Centre in Parramatta
Dear Shareholder

As promised, the transformation of Telstra into a world-class media communications company continues on schedule. During the financial year we achieved some key transformation milestones which were reflected in our strong operating and financial performance. The favourable trends that emerged in the first half continued to strengthen in the second half. We beat our financial guidance and restored positive earnings growth.

During the year we launched two world leading networks, the Next G™ and Next IP™ networks. We already have more than one million customers using the Next G™ network’s unparalleled speed, coverage, content, applications and integrated services.

We invited our customers to imagine new ways of working, living and communicating. Now our networks are allowing our customers to make quantum changes in how they live and work. We have a growing bank of customer testimonials detailing improvements in productivity, gains in efficiency and new ways of communicating by using our services.

We continued to win in the key markets. Our retail broadband market share increased 3 percentage points to 47%. In January this year we became the 3G market leader and we now have more than two million 3G customers. Our strategy of simplification, integration and differentiation is being translated into real value for our customers.

Our transformation is also driving innovation. During the year we launched mobile BigPond® TV and BigPond embraced the Web 2.0 world with I-Pond™, our new home page personalisation tool. We were the first major Australian company to enter the new internet world of Second Life. We are building a content factory with our paid and user generated BigPond® content and Sensis’ integrated advertising content. Both are helping drive value in our growing media-comms business.

We are the central nervous system for Australia – we touch the lives of nearly all Australians. We have proved our ability to execute and deliver large infrastructure projects. We have the vision for the future and our plan for Australia is progressing on track, on budget and on time.

Financial performance

Our earnings before interest and tax (EBIT) for the 2007 financial year grew 7.1% to $5.9 billion (excluding the Trading Post write-down). This was ahead of our guidance of 3.0% to 5.0% growth.

We increased sales revenue by almost $1 billion or 4.2% to $23.7 billion, ahead of our target growth of 2.5% to 3.0%. Underlying sales revenue from our Australian operations grew 3.5% to $21.7 billion, a strong performance as we remain focused on the Australian market.

The strong revenue result was driven by our continued success in the key markets of mobiles, broadband and Sensis. We also further slowed the decline in PSTN (fixed line) revenue to just 4.1 % in the financial year.

Operating expenses increased by 4.4% to $14.1 billion. This was caused by the costs associated with driving mobile and broadband growth, a write-down in our classifieds advertising business the Trading Post and additional expenses relating to various acquisitions not included in the prior year.

Our full year profit after tax grew 2.9% to $3.3 billion. This was driven by strong revenue growth and a decline in the labour expense, partially offset by an increase in other operating expenses.

Financial summary

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>2007</th>
<th>2006</th>
<th>change</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>23,673</td>
<td>22,712</td>
<td>961</td>
<td>4.2</td>
</tr>
<tr>
<td>EBITDA (1)</td>
<td>9,861</td>
<td>9,575</td>
<td>286</td>
<td>3.0</td>
</tr>
<tr>
<td>EBIT (1)</td>
<td>5,779</td>
<td>5,497</td>
<td>282</td>
<td>5.1</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>2,899</td>
<td>4,579</td>
<td>(1,680)</td>
<td>(36.7)</td>
</tr>
<tr>
<td>Ordinary dividends (cents per share)(2)</td>
<td>28</td>
<td>28</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

(1) includes transformation related costs.
(2) 2006 also included a 6 cent per share special dividend paid with the interim dividend, taking total dividends declared for the year to 34 cents per share.
In relation to cash capital expenditure, we invested $5.7 billion during the financial year, transforming our business to provide our customers with better applications and services. This included expenditure on the construction of the Next G™ and Next IP™ networks and expenditure on our IT transformation. The 2007 financial year was the peak spend year for our transformation programme.

Telstra’s Board of Directors declared a final fully franked ordinary dividend of 14 cents per share for the second half, bringing total ordinary dividends declared for the financial year to 28 cents per share. This represents a total payment this year of $3.5 billion to our 1.5 million shareholders.

**Segment performance**

The strong performance of mobiles across the retail business units was a large contributor to the overall revenue growth, especially since the launch of the Next G™ network in October 2006.

Retail broadband (mainly BigPond) revenue growth exceeded the PSTN (fixed line) revenue decline in absolute dollar terms. This is a strong result compared to the last financial year, when the combined growth of retail broadband and mobiles matched the absolute dollar decline in PSTN. Our PSTN business is now only 30% of our total sales revenues.

Our retail PSTN performance was strong, with the number of PSTN lines falling 4,000 for the year, compared to a decline of 269,000 in 2006. Our consumer units – led by our dedicated regional and rural business unit Telstra Country Wide – grew PSTN retail revenue in May and June, driven by local area marketing initiatives in Brisbane, Adelaide and Perth.

Our market-based management initiatives such as subscription based pricing and value based segment offers, combined with our extensive customer knowledge, is helping us deliver a more tailored customer experience. This has helped drive the PSTN turnaround.

For further detail on the performance of each business unit refer to pages 14 to 19.

**Transformation**

We are almost two years into our five-year transformation and we remain on or ahead of plan on virtually all fronts.

We have launched our world leading Next G™ and Next IP™ networks and we are bringing the future to our customers and Australians before the rest of the world.

The Next G™ network is Australia’s largest national mobile broadband network, providing world-leading speed. It is changing customer behaviour with 3G customers using their phones differently and more frequently than 2G customers. Customers are embracing the fast, user-friendly, real-time services of the Next G™ network. On average our 3G customers are spending over $20 more than their 2G counterparts through increased voice usage, SMS usage and more data sessions.

We are also investing in our staff and providing them with the right skills needed in the New Telstra. We opened the Telstra Learning Academy in August 2006, and we opened two new purpose-designed learning facilities in May and June this year. In the first 12 months of operation, the Telstra Learning Academy has trained more than 14,000 staff.

Our workforce has fallen by 5,746 since 1 July 2005 (excluding the impact of acquisitions and divestments). Despite this decline, we are delivering record service levels across more key metrics than ever before.

To date we have made good progress on our IT transformation and we’re on course to deliver the first IT systems release at the end of this calendar year. We
exited a further 132 IT systems during the year and we are on track to meet our 80% reduction target by 30 June 2010. During the year we exited or capped 124 network platforms, delivering savings of $55 million.

Simplifying our IT systems is critical in realising the full potential of the transformation. We are removing costs by reducing complexity across our IT systems. By the end of the 2008 calendar year, we will see a paradigm shift in the customer experience for our consumer customers. We will deliver products and services for all our consumer segments from one common platform.

Over the next three years we will be migrating customers across to our new IT systems and retiring the old systems. We don’t expect the cost savings from our IT transformation to flow through to our financial performance until fiscal 2009 and 2010 because we need to maintain duplicate systems until all our customers are migrated.

Our hybrid-fibre coaxial (HFC) cable has been upgraded to 30 megabits per second (Mbps) in Melbourne and Sydney and is available to 1.8 million homes. This will enhance Telstra’s reputation as the premium fixed and wireless broadband provider. We will also be upgrading our Next G™ data cards to 7.2 Mbps very soon to provide our customers the fastest speeds offered in the world.

**Outlook**

We will continue to transform the business and win in the key markets, building on the solid foundation laid since starting the transformation almost two years ago. We remain committed to providing our customers a seamless, one-click, one-touch, one-screen, one-command, real-time integrated experience across all devices and platforms leveraging our full suite of assets.

With the peak transformation spend years now behind us, we can look forward to continued growth in our revenues, earnings and cash flow. However the 2008 financial year will be challenging given Government subsidisation of our competitors and regulator-driven wholesale price reductions. These regulated price reductions enable competitors to access Telstra’s network at below cost.

In the financial year ending 30 June 2008, we expect*:

- revenue growth in the range of 2.0% to 3.0%;
- earnings before interest tax depreciation and amortisation (EBITDA) growth in the range of 2.0% to 3.0%;
- EBIT growth in the range of 3.0% to 5.0%; and
- Capital expenditure of between $4.6 billion to $4.9 billion (on an accrual basis).

In respect of dividends, the level of future dividends is a decision for the Board to make twice a year in its normal cycle. In making these decisions, they will have regard to earnings and cash flows as well as future regulatory impacts and other factors that affect operations.

Our investment in next generation platforms will enable us to leverage the growth opportunities from our integrated portfolio of media communications assets - including BigPond, Sensis and Foxtel. We will continue to innovate, and lead from the front.

We are creating a Telstra that allows our customers not only to imagine the possibilities but to live them. We believe our integrated strategy will lead to the creation of long-term shareholder value, and we remain on course to achieve our long term management objectives including $6 billion to $7 billion free cash flow in the 2010 financial year.

Finally, Telstra non-executive director Belinda Hutchinson has advised the Board that she will not be standing for re-election at the upcoming Annual General Meeting (AGM) in November. Belinda, whose second term as a Telstra director expires at the AGM, will therefore retire from the Telstra Board following the AGM. We extend our warmest thanks to Belinda for her significant contribution to Telstra throughout her six year tenure.

* Based on reported numbers and assumes organic growth, no FTTN build and no provisions.
Financial highlights

“In terms of our key financials, we are on or ahead of plan or guidance on all measures. We said we would deliver, and we are.” Sol Trujillo, Chief Executive Officer

“Our performance was driven by strong top-line growth as we continued to win in the key markets of mobiles, broadband and Sensis, boosted by the lower declines in our PSTN revenues.” John Stanhope, Chief Financial Officer

- Sales revenue +4.2% to $23.7 billion
- Domestic sales revenue +3.5% to $21.7 billion
- Reported EBIT +5.1% to $5.8 billion
- Underlying EBIT +7.1% to $5.9 billion (excludes Trading Post write-down)
- Capital expenditure and investments +39% to $6 billion in our peak capex spend year

Five year financial history

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales revenue ($bn)</th>
<th>EBITDA(1)</th>
<th>EBIT(1)</th>
<th>Profit before income tax expense</th>
<th>Profit for the year</th>
<th>Dividends declared for the fiscal year(2)</th>
<th>Dividends declared per share (cents per share)(2)</th>
<th>Total assets</th>
<th>Gross debt</th>
<th>Net debt</th>
<th>Equity</th>
<th>Capital expenditure and investments</th>
<th>Free cash flow</th>
<th>Financial ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$23,673</td>
<td>$9,861</td>
<td>$5,779</td>
<td>$4,692</td>
<td>$3,480</td>
<td>$28.0</td>
<td>$37,875</td>
<td>$15,440</td>
<td>$14,587</td>
<td>$12,580</td>
<td>$5,982</td>
<td>$2,899</td>
<td></td>
<td>Return on average assets 15.9%</td>
</tr>
<tr>
<td>2004</td>
<td>$22,712</td>
<td>$9,575</td>
<td>$5,497</td>
<td>$4,564</td>
<td>$4,224</td>
<td>$34.0</td>
<td>$36,224</td>
<td>$13,712</td>
<td>$13,024</td>
<td>$12,834</td>
<td>$4,303</td>
<td>$4,579</td>
<td></td>
<td>Return on average equity 26.3%</td>
</tr>
<tr>
<td>2005</td>
<td>$22,161</td>
<td>$10,464</td>
<td>$6,935</td>
<td>$6,055</td>
<td>$4,978</td>
<td>$34.0</td>
<td>$35,211</td>
<td>$13,234</td>
<td>$11,277</td>
<td>$11,658</td>
<td>$4,129</td>
<td>$5,194</td>
<td></td>
<td>EBIT net finance costs cover (times) 5.1</td>
</tr>
<tr>
<td>2006</td>
<td>$20,737</td>
<td>$10,175</td>
<td>$5,848</td>
<td>$5,309</td>
<td>$3,284</td>
<td>$26.0</td>
<td>$34,993</td>
<td>$11,167</td>
<td>$10,972</td>
<td>$10,364</td>
<td>$4,129</td>
<td>$4,163</td>
<td></td>
<td>EBITDA net finance costs cover (times) 5.9</td>
</tr>
<tr>
<td>2007</td>
<td>$20,495</td>
<td>$9,170</td>
<td>$4,928</td>
<td>$4,117</td>
<td>$3,474</td>
<td>$27.0</td>
<td>$35,599</td>
<td>$12,272</td>
<td>$12,272</td>
<td>$11,422</td>
<td>$3,332</td>
<td>$4,565</td>
<td></td>
<td>Gross debt to capitalisation(3) 55.1%</td>
</tr>
</tbody>
</table>

Sales revenue ($bn)

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<table>
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<td>2007</td>
<td>$20,495</td>
</tr>
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</table>
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Financial ratios

- Return on average assets: 15.9% (2003), 15.7% (2004), 20.6% (2005), 19.4% (2006), 16.2% (2007)
- Gross debt to capitalisation(3): 55.1% (2003), 51.7% (2004), 49.4% (2005), 43.6% (2006), 44.3% (2007)
- Net debt to capitalisation(4): 53.7% (2003), 50.4% (2004), 46.3% (2005), 42.1% (2006), 41.6% (2007)

Footnotes:
(1) Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Similarly, earnings before interest and income tax expense (EBIT) reflects our profit for the year prior to including the effect of net finance costs and income taxes. We believe EBITDA and EBIT are useful to investors and analysts and other members of the investment community largely view them as key and widely recognised measures of operating performance.
(2) Dividends declared in 2006 include a 6 cent special dividend paid with the interim dividend. Dividends declared in 2005 include two special dividends amounting to 12 cents and dividends declared in 2003 include a 3 cent special dividend.
(3) Based on gross debt (total current and non current borrowings) as a percentage of gross debt plus equity.
(4) Based on net debt (gross debt less liquid interest bearing assets) as a percentage of net debt plus equity.
(5) Prepared under the previous A-GAAP.
(7) The adoption of UIG 4 “Determining Whether an Arrangement Contains a Lease” has been applied from 1 July 2005. As such, 2005, 2004 and 2003 have not been restated for the impact of UIG 4.

Net debt and gross debt balance as at 30 June 2005 does not reflect the impact of the relevant A-IFRS standards for financial instruments as this standard was only adopted as at 1 July 2005. Had it been adopted for 30 June 2005, gross debt would be $13,208 million and net debt would have been $11,660 million.
The Universal Service Obligation (USO) exists to ensure reasonable access to standard telephone services and payphones for all Australians regardless of where they live or work. Telstra is the USO service provider, paid for by a subsidy (level set by Government). This subsidy is funded by all carriers in the telecommunications industry. Telstra pays two thirds of the total USO levy. The total USO levy is significantly below the true cost of fulfilling the USO.

In June 2007 the Government announced a review of the USO, covering both the obligations of the USO provider (Telstra) and the appropriate level for the subsidy. Telstra welcomes the review and hopes it will force our competitors to pull their weight in the bush and bear their share of costs.

In December 2006 Telstra lodged its submission to the Government as part of the $600 million Broadband Connect Infrastructure Program funding initiative. The Telstra submission included plans to introduce ADSL broadband access to a quarter of a million homes and businesses in rural and remote communities for the first time.

On 8 August 2007 the Minister issued a draft licence condition to Telstra relating to the switch-off of the CDMA network. On 11 September 2007 Telstra issued proceedings in the Federal Court of Australia seeking orders restraining the Minister from proceeding to impose any final licence condition on the basis that the Minister had prejudged the matter before considering submissions made by Telstra as to why the Minister should not impose the licence condition as she was required to do by law. On 13 September 2007 the Minister transferred the decision on whether to impose a final licence condition to the Attorney General.

On 15 September 2007 the Attorney General decided to impose a final licence condition without further consultation with Telstra. The effect of the licence condition is to prevent Telstra from switching off the CDMA network until the Minister is satisfied that the Next G™ network provides as good or better coverage and services as the CDMA network. Telstra believes such a licence condition is wholly unwarranted.

On 18 June 2007 the Government awarded $958 million to OPEL, a 50:50 joint venture between SingTel Optus and Elders. This comprises $600 million which was the original amount available under the Broadband Connect Infrastructure Program and an additional amount of $358 million which the Government claims is separate to the original funding program. OPEL plan to largely overbuild and compete with Telstra’s Next G™ mobile broadband network.

On 3 August 2007 Telstra commenced proceedings in the Federal Court against the Minister for Communications, Information Technology and the Arts, Helen Coonan, in relation to the Broadband Connect Program. Telstra is seeking orders from the Federal Court compelling the Minister to provide documents relating to how the funding decision was made.

The ACCC recently issued several draft final determinations in ULLS arbitrations to which we are a party, reducing the price from $17.70 to $14.40 per line per month in band 2 (metropolitan areas, where the greatest number of ULLS services will be provided).

In July 2007 the ACCC issued a final determination in a LSS arbitration significantly reducing the monthly charge to $2.50 (down from $3.20 per month).

<table>
<thead>
<tr>
<th>Issue</th>
<th>Background</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access Pricing – ULLS &amp; LSS</td>
<td>The ACCC requires Telstra to provide certain services to our competitors using our networks at a price based on the ACCC’s calculation of the efficient costs of providing these services, or a retail minus avoidable cost basis for resale wholesale services. In many cases we believe that the ACCC proposes prices that are below our efficient cost of supply.</td>
<td>The ACCC recently issued several draft final determinations in ULLS arbitrations to which we are a party, reducing the price from $17.70 to $14.40 per line per month in band 2 (metropolitan areas, where the greatest number of ULLS services will be provided). In July 2007 the ACCC issued a final determination in a LSS arbitration significantly reducing the monthly charge to $2.50 (down from $3.20 per month).</td>
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<tr>
<td>CDMA Licence Condition</td>
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</tr>
<tr>
<td>Fibre-to-the-node (FTTN)</td>
<td>We have announced our proposal to invest $4.1 billion to build a high-speed broadband network to 5 million homes in 5 capital cities and the Gold Coast using fibre-to-the-node (FTTN). Only Telstra has a fully developed FTTN plan. However, this plan is on hold pending legislative reform to reduce regulatory risk.</td>
<td>The Government has now established an Expert Taskforce to establish criteria for, and to evaluate, competitive bids to build a metropolitan high-speed broadband network, including any required regulatory reform to facilitate the investment. Telstra will participate in the Taskforce review if it is conducted in a rigorous and objective way. However we will not get bogged down in a process that is not going to deliver a timely outcome.</td>
</tr>
<tr>
<td>OPEL</td>
<td>In December 2006 Telstra lodged its submission to the Government as part of the $600 million Broadband Connect Infrastructure Program funding initiative. The Telstra submission included plans to introduce ADSL broadband access to a quarter of a million homes and businesses in rural and remote communities for the first time.</td>
<td>On 18 June 2007 the Government awarded $958 million to OPEL, a 50:50 joint venture between SingTel Optus and Elders. This comprises $600 million which was the original amount available under the Broadband Connect Infrastructure Program and an additional amount of $358 million which the Government claims is separate to the original funding program. OPEL plan to largely overbuild and compete with Telstra’s Next G™ mobile broadband network. On 3 August 2007 Telstra commenced proceedings in the Federal Court against the Minister for Communications, Information Technology and the Arts, Helen Coonan, in relation to the Broadband Connect Program. Telstra is seeking orders from the Federal Court compelling the Minister to provide documents relating to how the funding decision was made.</td>
</tr>
<tr>
<td>USO Review</td>
<td>The Universal Service Obligation (USO) exists to ensure reasonable access to standard telephone services and payphones for all Australians regardless of where they live or work. Telstra is the USO service provider, paid for by a subsidy (level set by Government). This subsidy is funded by all carriers in the telecommunications industry. Telstra pays two thirds of the total USO levy. The total USO levy is significantly below the true cost of fulfilling the USO.</td>
<td>In June 2007 the Government announced a review of the USO, covering both the obligations of the USO provider (Telstra) and the appropriate level for the subsidy. Telstra welcomes the review and hopes it will force our competitors to pull their weight in the bush and bear their share of costs.</td>
</tr>
</tbody>
</table>
imagine
Imagine your voice controlling your devices. Imagine using your mobile phone to pay your bills, buy your ticket to the theatre or even monitor your vital signs. Imagine your television also being your phone, your internet connection, or your family’s teleconference centre. Imagine recording two TV programs and watching a third all at the same time.

Telstra’s next generation networks (NGNs) are helping the health industry remove the time barriers between emergency and treatment. Imagine an ambulance arriving quicker by using our location technology to pinpoint the scene and nearest ambulance. Our Next G™ network can be used to record and transmit the patient’s condition via video to the best available professional for diagnosis and recommendation.

Telstra’s NGNs are helping remove the distance barriers in education with students and teachers interacting real time from multiple locations, in multiple cities and even multiple countries.

Telstra’s NGNs are helping remove device barriers and allowing our business customers to access their desktop computer without being tied to their desk. Our business customers are reducing travel costs by attending virtual meetings from their desktop computer or Next G™ mobile phone.

Only Telstra is making this all possible.
Health

Telstra’s next generation networks are helping our health customers imagine the Possibilities™ as they develop innovative solutions to cope with Australia’s aging population and increasing health costs. Health authorities are already using tele-diagnosis, removing the need for doctors and patients to be physically together. Health providers can spend more time caring for people and less time in the office completing administrative tasks.

One of Telstra’s health customers, Hammond Care, supports people living with dementia by helping them live safely and independently in their own homes for as long as possible. Before the launch of the Next G™ network, community care coordinators used to regularly travel to and from their office to access information databases, check rosters, update client care plans and print off documents. Coordinators are now spending less time in the office and more time in the field caring for patients. “The Next G™ network is actually helping coordinators save up to two hours a day in office-based time. That translates to two hours of direct care,” Dr Stephen Judd, Chief Executive Officer, Hammond Care, said.

Victorian rural health alliance, HumeNET Health Alliance, delivers information, communication and technology services for health agencies and programs across North Eastern Victoria. The Next G™ network is helping HumeNET deliver high-speed, high-quality secure broadband services to health care agencies across the region.

“The challenge for us is to eliminate the tyranny of distance and Next G™ fills this piece of the puzzle,” Steve Bowmaker, CIO, HumeNET, said.
Small Business

Small and medium enterprises (SME) are important to the Australian economy and Telstra’s next generation networks are helping various SMEs – ranging from plumbers to accountants – save time, money and even the environment.

Leading Australian salmon aquaculture business and Telstra Business customer, TASSAL, operates 22 salmon farm leases in remote waters across south-east Tasmania’s rugged coastline. TASSAL’s operations crews regularly travel long distances by boat to remote locations to manage feeding routines, deliver fuel for generators, fish pellets and other supplies. TASSAL recently switched from CDMA to the Next G™ network.

“CDMA delivered part of the solution for us, but the Next G™ network is providing the next generation solution to give us instantaneous access with our people and product.

“With the Next G™ network we can now keep in touch with the operations crews at all times. We want to reduce costs and one of the largest costs is feed. We can now feed the fish by remote control using the Next G™ network to save time, petrol for travel, reduce our impact on the environment, and ensure that our salmon are in peak condition,” Phillip Excell, Group Financial Controller, TASSAL, said.

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Rubbish removal franchise service, 1300RUBBISH is also benefiting from the world-leading speed and coverage of Telstra’s Next G™ network as it expands its business nationally. The video conferencing capabilities provided by Next G™ has halved the travel costs of the 1300RUBBISH founders and has allowed the franchise owners to join video conference meetings, avoiding meeting duplication and saving everyone’s time.

“The Next G™ network has already provided a number of welcome benefits, one of which is the dramatic increase in data transfer speeds. For example job details, customer quotations and credit card payments are all made over the Next G™ network,” Geordie Gill, Director and co-founder, 1300RUBBISH, said.
TELSTRA'S CONSUMER VISION

Using Telstra’s next generation networks it will be possible to watch the same movie or sporting event seamlessly across your TV, computer and mobile without losing a minute of the action. Telstra is making it possible to store personal data securely in the network, accessible whilst on the move and from any device.

We are empowering Australians to video conference friends and family across the country and the world.

Customer experiences

Work/life balance

The Next G™ network has removed the city and country technology divide allowing people in rural and remote parts of Australia to access high-speed broadband for the first time. The Next G™ service means being rural doesn’t mean being remote and out-of-contact.

The 2006 Rural Industries Research and Development Corporation (RIRDC) NSW Rural Women’s Award winner, Kate Schwager, is always on the go. She splits her time between running a farm, promoting the Wee Waa website and her publicity duties with the Women in Cotton Network (WIN-COTT). To keep in touch, Kate uses a Next G Turbo Card to access email and the internet as she travels around the Wee Waa and Narrabri area.

“The idea of having internet access wherever I go is great. I travel quite frequently, promoting, weewaan.com and the latest website Narrabri.net to potential advertisers and generating interest in the Rural Town Web Package. With the Telstra Next G™ Turbo Card, I can demonstrate the websites on my own laptop computer. I can also develop advertisements for website sponsors in front of their eyes and have it up and running. It’s a powerful tool,” Kate said.

“Work/life balance is important to her, and the Next G™ network helps her keep connected with home when she is travelling on business.

Pictured above: Margaret Lomas, Founder, Destiny Financial Solutions; and top right, Kate Schwager, farmer and business owner, Wee Waa NSW

“I have found the search capabilities a vital tool for me. Wherever I am I can find all the services I need at the touch of a button, and even get directions – a new place for dinner, the local chemist, what’s on at the movies... it’s all there. Pocket News keeps me up to date with the latest events, and I have frequently looked up the weather in the city I will be visiting to decide what clothes to take,” Margaret said.
Education

Our education customers are embracing new technology that is allowing them to deliver new and innovative education to students throughout Australia using Telstra’s next generation networks.

One of Telstra’s Enterprise and Government customers, Momentum Technologies, is using Telstra’s Next G™ network to bring the outside world into the classroom, allowing students to go on field trips without leaving the classroom. The speed and reach of Telstra’s Next G™ network allows Momentum Technologies’ customers to stream high quality video throughout Australia.

“Momentum’s M-View® technology and Telstra’s Next G™ network means that virtual excursions can be taken by school kids throughout Australia. They can watch live video, hear the teacher talking to them and also interact with them because it’s in real time,” Adele Whish-Wilson, CEO, Momentum Technologies Group, said.

As our education customers experience the full benefits of Telstra’s integrated Next G™ and Next IP™ networks students will benefit. The Catholic Education Office of Western Australia, another of Telstra Enterprise and Government’s customers, is using Telstra’s Next IP™ network to deliver e-learning to Catholic schools throughout Western Australia.

“Using Telstra’s Next IP™ network, the Catholic Education Office of Western Australia via its Virtual Private Network, CathEdNet, delivers online education to all Catholic schools. The CathEdNet provides e-learning to 67,000 children at Catholic schools throughout Western Australia, regardless of the school’s size or location,” Michael King, Assistant Director, Catholic Education Office of Western Australia, said.

TELSTRA’S EDUCATION VISION

Telstra’s next generation networks mean educational opportunities will in future no longer be dictated by geographic proximity to the nearest school or university. Telstra’s networks underpin the evolution from a classroom of 25 students dominated by chalk and blackboards to a virtual classroom of potentially unlimited participation with interactive screen-based whiteboards. Students will be in multiple classes interacting with other students real-time in multiple locations. Students will learn with others across multiple suburbs, towns, cities, states or even countries. Students will attend class via TV and record other lectures in the background, never having to miss a class. The traditional textbook is being replaced by online and interactive learning materials, challenging the previous printing, distribution and structural constraints.
When we announced our five-year transformation strategy back in November 2005, one of our objectives was to improve our customers’ experience. We realigned the business units around our customers and created a unit dedicated to serving the needs of Australia’s 1.4 million small and medium enterprises (SME), called Telstra Business (TB).

In conjunction with the business unit realignment, and our customer knowledge gathered through our market-based management customer research, we created seven dedicated consumer segments in Telstra Consumer Marketing and Channels (TC&C) and five dedicated business segments in TB.

The business units are now aligned to our customers, and the benefits are starting to flow through to our financial performance. Our retail business units performed strongly across the key markets of PSTN, mobiles and the internet.

The transformation is also driving an improved performance across all business units, with the Next G™ and Next IP™ networks already producing results with strong data revenue growth.

SENSIS
Overview
Sensis is Telstra’s fully owned advertising subsidiary and Australia’s leading information resource. Sensis helps Australians find, buy and sell through a network of advertising and local search services. These services are readily available to Australians through print, online, voice, mobile and satellite navigation.

Performance Highlights for the year ended 30 June 2007
- Total revenue grew by 8% to $1,974 million – Sensis’ fifth year in a row of strong growth.
- Continuing world class growth of 4% to $1,534 million in the Yellow™ and White Pages® directories businesses.
- 15% growth in potential reach for Yellow™ advertisers.
- 34% growth in Sensis’ emerging business portfolio with highlights including 75% growth in Whereis® satellite navigation content revenues and 93% growth in MediaSmart® digital display advertising revenues.
- Strong growth of 14% to $119 million in Sensis’ voice portfolio, driven by rapidly growing consumer demand for the 1234 premium voice service.

Competitive environment
Sydney market challenges and heavy competition are impacting the broader print classifieds industry. These factors were the key drivers of the 12% decline in the overall classifieds revenue, despite online classifieds revenue growing. As a result, we have written-down the carrying value of Trading Post® by $110 million. This write-down pushed reported EBITDA down 5.8% to $943 million.

Innovations
- Sensis re-branded Yellow Pages® to Yellow™ in August 2006 which was accompanied by a series of new product releases, including:
  - Yellow™ in the car – a specialist Yellow print directory for use when you’re out and about in the car;
  - Home@Yellow™ – a specialist online service for Australian home renovators; and
  - Yellow™ Mobile – a new mobile version of Yellow that helps Telstra customers find local businesses when they’re out and about.
- Sensis launched Carshowroom.com.au – a new web site that helps Australians research new car purchases.
- Sensis launched a high-resolution photo mapping covering a growing number of Australian cities in Whereis.com.au. Sensis was the first company to provide high resolution photo mapping of Australian cities.

Outlook
Sensis will continue to play a key role in Telstra’s media-comms strategy by defending and growing its directory business, maintaining growth in its emerging businesses, creating new opportunities in the online directories, classifieds and advertising markets and investing in enhanced systems and processes.
**BIGPOND**

**Overview**

Telstra BigPond is Australia’s leading Internet Service Provider (ISP) with more than 2.7 million broadband and Dial-up customers. BigPond offers retail internet access nationally through a range of technologies (ADSL, Cable, Wireless, Satellite, ISDN and Dial-up) complemented by an impressive suite of award-winning online and mobile content and value added services.

**Performance Highlights for the year to 30 June 2007**

- Telstra Retail Broadband revenues grew more than 60% to $1.2 billion, exceeding $1 billion for the first time.
- Retail Broadband market share increased from 44% to 47%, and the number of broadband services exceeded 2 million.
- Churn, or the rate of customers leaving BigPond, has been maintained at amongst the best in the world.
- BigPond® Movies online revenue grew more than 35% for the year and the total number of DVD rentals since the service was launched in January 2004 passed 6 million.
- BigPond® Games online revenue grew more than 200% following the launch of Games Shop in June 2006.
- BigPond Contact Centres were awarded the 2007 Australian Contact Centre of the Year, Australian ISP Phone Contact Centre of the Year and Australian Email Contact Centre of the Year. These awards were further confirmation of our position as a number one customer service provider.

**Another Big Year for Innovation**

- BigPond marked its 10th anniversary in November 2006 with the launch of a national high-speed broadband network based on ADSL2+ technology.
- In March 2007 BigPond launched The Pond™, its presence in the 3-D virtual world Second Life. Second Life is an example of how broadband is helping to evolve online content. BigPond’s islands in Second Life, collectively known as The Pond™, are already the most visited of all real world branded sites globally.
- I-Pond™ was launched in July 2007 and leverages the functionality of Web 2.0 to enable users to customise their internet experience by personalising their home page with their favourite applications and content.
- In July 2007 BigPond launched BigPond® TV, a mobile TV service that makes it easy for users to watch a range of media content over Telstra’s 3G and Next G™ networks. BigPond® TV offers customers ‘on demand’ access to a range of both locally produced and internationally acclaimed programming.

**Outlook**

BigPond will continue to focus on growing broadband subscribers, the provision of cutting edge content and value added services and improving the customer experience. BigPond is also a key component of Telstra’s evolution into a media-comms company.

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**FOXTEL**

**Overview**

Telstra owns 50% of Australia’s leading subscription television provider, FOXTEL. In March 2004, FOXTEL Digital was launched giving Australian viewers the choice of more than 100 digital channels of news, sport, general entertainment, movies, documentaries, music and children’s programming. In the world’s fastest digital conversion, FOXTEL went 100% digital in February 2007.

**Performance highlights for the year to 30 June 2007**

- FOXTEL subscriber revenue grew 13% to $1,230 million.
- FOXTEL EBITDA increased 40% to $237 million.
- FOXTEL recorded a profit before tax of $76 million up from last year’s maiden profit of $4 million.
- Direct customers increased 13% to 1,292,000.
- Over 16% of customers have taken up FOXTEL iQ1, FOXTEL’s Personal Digital Recorder and over one-third of all new customers are taking up FOXTEL iQ1.
- 50,000 customers signed up to FOXTEL By Mobile1 on the Next G™ network.
- Strong content offerings combined with the consumer benefits of FOXTEL iQ1 has resulted in continued low churn rates with total churn below 12%.
- FOXTEL went 100% digital, only 3 years after the launch of the digital platform.

**Innovation**

- FOXTEL launched ON DEMAND allowing FOXTEL iQ1 customers to pause and rewind live television at the touch of their remote control, all through FOXTEL’s revolutionary hard disk drive set-top-unit.
- FOXTEL launched FOXTEL By Mobile1 over Telstra’s Next G™ network, taking FOXTEL out of the lounge room. FOXTEL By Mobile1 offers customers the choice of 16 channels including Sky News1, FOX Sports1, CNN, Disney Channel1, MTV1 and The Comedy Channel.

**Outlook**

FOXTEL will continue to invest in expanding its range of exclusive and compelling content, extend into new delivery mechanisms and retain strong focus on delivering improved business performance.
CONSUMER MARKETING AND CHANNELS
Overview
Telstra Consumer Marketing and Channels (TC&C) is responsible for serving consumer customers through a nationwide network of call centres, company owned and licensed shops and dealer relationships. Using Telstra’s unique market based management system it offers a full range of products and services to these customers. Services provided include fixed lines, mobiles, broadband internet, PayTV, a range of integrated product and service bundles, exciting content and applications like video calling, BigPond® Music, BigPond® TV, FOXTEL By Mobile1 and Sensis Search.

Performance Highlights for the year to 30 June 2007
• Total revenues from external customers increased 7.1% to $9,509 million.
• Mobile revenue grew strongly driven by growth in customer numbers as well as growth in mobile data, which increased to 25% of mobile service revenue.
• Telstra is the market leader in high speed mobiles and wireless with Next G™ and 3G customers representing more than 50% of our consumer base.
• After many years of decline, we grew our residential fixed lines by 54,000.
• Our consumer PayTV revenue and customer numbers grew strongly.
• Our company owned and licensed stores increased same store volumes by 25%.
• We opened 65 new branded stores, bringing our total company owned or licensed stores to 300 – the largest retail telecommunications presence in Australia.

Delivering on our vision of a new customer experience
• The Next G™ network launch has accelerated and enhanced the ability of Telstra customers to have a rich content experience on their mobile phones or through their laptop via a BigPond® wireless modem.
• We demonstrated the power of “only with Telstra” integration with events such as Australia’s first simultaneous online and mobile concert at broadband speeds.
• Leveraging Telstra’s sponsorships, we broadcast the FINA World Swimming Championships live to Telstra 3G and Next G™ mobile phones.
• We launched pre-paid mobiles on the Next G™ network, giving customers cost controlled access to Australia’s largest and fastest high speed mobile service.
• Our new campaigns such as Spread The Good Stuff™ are resonating with our customers as we target their specific needs.

Outlook
TC&C will continue to design, develop and deliver products and services based on the needs of its customers. Using the principles of market based management we will deliver a broader range of integrated and innovative products and services that are flexible, reliable and simple.

COUNTRY WIDE
Overview
Telstra Country Wide (TCW) shares responsibility for the sales, marketing and management of customer relationships in Brisbane, Adelaide and Perth* and regional, rural and remote parts of Australia. TCW works closely with the retail business units to deliver innovative communication solutions that meet the needs of customers living in these areas.

Performance highlights for the year to 30 June 2007
• Broadband revenue growth of 44% driven by strong growth in customers using ADSL (fixed) and wireless broadband.
• Successful launch of the Next G™ network in October 2006 providing rural, regional and remote customers with access to a range of new content, applications and services including high speed wireless broadband.
• Upgraded exchanges with ADSL bringing broadband access to an additional 82,000 households in 2006/2007.

Local knowledge
• TCW’s local sales and marketing presence provides Telstra with a unique competitive advantage that maximises local revenue and market share opportunities as well as providing communities with access to Telstra management.
• At the core of TCW are 34 Area General Managers (AGMs) who live and work close to their customers. AGMs translate their local knowledge into local sales and marketing activity that connects with our customers and produces tangible commercial results and customer outcomes.
• TCW’s local area marketing provided essential support to drive revenue growth with campaigns such as the Next G™ road show, which was one of the largest experiential marketing programs in Australia. The road show visited 130 towns in three and a half months and touched over 100,000 business and consumer customers.

Outlook
The competitive advantage of TCW’s local presence combined with the strength of Telstra will continue to meet the challenges of an ever more competitive market.

* Business customers in Brisbane, Adelaide and Perth are managed by Telstra Business and Telstra Enterprise & Government.
ENTERPRISE & GOVERNMENT

Overview
Telstra Enterprise and Government (TE&G) is the leading provider of network based solutions and services in Australia and New Zealand, providing unique and integrated voice, data, mobile, services and solutions that are valued by around 1,500 enterprise and government customers.

Performance highlights for the year ended 30 June 2007
- Total revenue from external customers was $4,465 million.
- New wave revenue grew 13% and now accounts for 41% of the total revenue base.

Launch of the Next IP™ network
In April 2007 Telstra launched the Next IP™ network, a key pillar in the overall five-year transformation. The Next IP™ network allows Telstra, and in particular TE&G, to deliver world-class network based solutions and services to its customers over one of the largest fully integrated (both wireline and wireless) national IP networks in the world.

Next Dimension Working™ for TE&G customers
Next Dimension Working™ is a new way of working, without the constraints of time, distance and devices.
Telstra offers customers a growing range of differentiated innovative and world-leading products and solutions that are only delivered over the integrated Telstra Next IP™ and Telstra Next G™ networks.

For TE&G customers, Next Dimension Working™ products and solutions offer substantial value creation possibilities by enabling new ways to generate revenues, productivity improvements and efficiencies through changing the way they do business.

Only TE&G can offer its customers:
- the most innovative product and solution portfolio in Australia and New Zealand;
- dedicated teams of highly skilled accredited specialists;
- close alliances and partnerships with global industry players;
- the simplest engagement and most responsive customer service;
- the financial strength to invest in the most advanced technology to service its customers; and
- the financial strength to invest in the most advanced technology to service its customers.

Outlook
Telstra’s integrated Next G™ and Next IP™ networks are fundamentally changing the way we communicate, work, interact and conduct business. TE&G is committed to investing in and providing Australia’s large enterprise and government customers with Telstra-only, network-based solutions and services that take their businesses into the Next Dimension™.

BUSINESS

Overview
Telstra Business (TB) was formed in January 2006, bringing together around 2,000 staff from across Telstra. It is focused on serving the technology and communication needs of Australia’s small and medium enterprise (SME) businesses through five dedicated business segments. TB offers its customers a full range of products and services including PSTN (fixed line), mobile, broadband, as well as data and Internet solutions tailored for their business.

Performance Highlights for the year to 30 June 2007
- Total revenue from external customers increased 2.5% to $3,241 million.
- TB outpaced competitors by increasing market share across all key products.
- TB enjoyed strong 3G customer growth, with 3G representing 32% of the total TB mobile customer base, driven by the launch of the Next G™ network.
- The PSTN revenue decline slowed, with TB increasing its PSTN customers in the fourth quarter.

Focusing on the customer
- Dedicated SME Contact Centres: established SME-focused contact centres with over 1,000 business sales and service personnel. We introduced a dedicated campaign sales number 1800 BUSINESS which replaced approximately 120 different access numbers. Business customers simply need to say “business” at the voice prompt to be directed to a business contact centre.
- Telstra Business Centre: opened first store in Parramatta in June 2007. The Centre offers distinct business demonstration areas that provide business solutions for home, office premise and mobile office work environments. Customers can meet with a business centre consultant to identify a ‘whole of business’ solution for their business. There are plans to roll out further business centres in business-centric locations nationally in 2007.
- Telstra Business Channel Partner Accreditation Program: launched in March 2007, aimed at establishing business sales and service performance benchmarks across retail distribution outlets and indirect channels so TB customers receive a consistent experience that meets their needs in an IP World.
- Telstra Business Broadband: launched to span the gap in offerings between BigPond® ADSL and traditional full service Internet and IP offerings.

Outlook
TB’s focus is on providing SME customers business solutions that allow them to do business their way. We aim to be the leading and most recommended provider of communications-based solutions to Australia’s small and medium enterprises.
**WHOLESALE**

**Overview**
Telstra Wholesale (Wholesale) sells access to Australia’s most robust and ubiquitous telecommunications network. It enables carriers in Australia and elsewhere around the world to deliver their own products and services over the Telstra network. Wholesale provides an extensive range of wholesale solutions to meet our customers’ needs, covering data, broadband, mobiles, voice, interconnection, facilities and international services.

**Performance highlights for the year ended 30 June 2007**
- Total revenue from external customers grew 1.8% to $2,657 million.
- Broadband growth continued to drive the overall wholesale product portfolio with DSL revenue increasing 21%.

**Competitive Advantage**
The focus of Wholesale is on areas of competitive advantage, including service capability, the expertise of its people and the reliability and coverage of its network.

**Delivering excellent service**
As part of Wholesale’s commitment to enhancing its performance and reducing costs, we continue to improve the delivery of our online ordering, billing and maintenance systems:
- Our 24-hour self-service capability allows around 2.1 million orders to be submitted online annually - an increase of more than 30% on previous years;
- We continue to set new service benchmarks with almost 98% of all customer orders now actioned on the same day they are received; and
- Our network’s consistent high performance allows our customers to deliver a reliable service to their customers.

**Outlook**
The way we serve our customers is being transformed by improved systems and the progressive discontinuing of ageing platforms and products. Ultimately, the aim is to continue to enhance delivery of our high-quality services and better support our customers’ businesses.

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**OPERATIONS**

**Overview**
Telstra Operations has responsibility for Telstra Services, the cross-company Program Office, Network and Technology, Wireless, IT Services, Product Management, Procurement, Credit Management and the Billing Directorate. Operations continues to play a key role in Telstra’s transformation, leading eight of the key strategic initiatives.

**Performance highlights for the year to 30 June 2007**
- Won the ‘Next Generation Network Service Provider of the Year’ Award at the Frost & Sullivan Asia Pacific ICT awards and ‘Best Telco Transformation’ Award at Telecom Asia’s 10th annual awards.

**Investment in next generation networks**
- Built the world’s largest national mobile broadband network – Telstra’s Next G™ network – in a record ten months.
- Increased peak network speeds to 14.4 Mbps and boosted base station range to 200km (at selected sites), extending coverage to 98.8% of the Australian population.
- Launched Telstra Next IP™ network – the largest fully integrated wireline and wireless national IP network with 99.999% reliability and enhanced security.
- High-speed internet (ADSL2+ services) now available with 55% coverage.
- In September 2007, upgraded the hybrid fibre-coaxial (HFC) broadband network to speeds of up to 30 Mbps in Melbourne and Sydney covering 1.8 million homes and businesses.
- Launched the $50 million state-of-the-art Telstra Integration Laboratory to end-to-end test the IP network and associated products.

**Simpler systems and products are reducing complexity**
- Exited 132 IT systems as a part of our plan to reduce 1,250 business and operational systems by 80% in five years.
- Completed 124 network platform caps and exits as a part of our plan to cap or exit 65% of 330 network programs.
- Made solid progress in simplifying Telstra’s product range by exiting 17 products and removing 250 old fixed, mobile and internet plans.
- Opened a new data centre in Ultimo, Sydney and upgraded facilities in St Leonards (Sydney) and Clayton (Melbourne) providing 4,500 square metres of additional space and extra storage equivalent to 400,000 DVDs.

**Workforce excellence driving productivity and service improvements**
- Invested in GPS equipment, new tools and new customer access network test equipment for Telstra’s technicians and 6,900 vehicles.
- Improved technician productivity by 17% and reduced overtime hours by 62%.
- Increased the number of residential faults cleared remotely by 12%.
- Answered 9% more fault calls within 20 seconds.

**Outlook**
Telstra Operations will continue to focus on its vision of delivering better networks, better products and better services for customers. Operations will also capitalise on its investment in world-leading next generation networks by expanding Telstra’s offering of differentiated product and services.
**INTERNATIONAL OPERATIONS**

**CSL New World Mobility Group**

**Overview**
We own 76.4% of CSL New World, Hong Kong’s number one mobile network by customers, revenues and profits. It was formed in March 2006 when we merged our CSL entity with New World PCS Limited. CSL New World currently operates three brands – 1O1O, One2Free and New World Mobility – to target different segments of customer.

**Performance highlights for the year to 30 June 2007**
- Total income increased 27% from HK$4,831 million to HK$6,151 million.
- EBITDA increased 27% from HK$1,390 million to HK$1,765 million.

**Competitive Landscape**
The Hong Kong market is highly competitive with 5 operators running 11 networks. The 3G era has seen competition intensify along with the rapid evolution of technologies and customer expectations. This has led to all operators adopting a different strategy to leverage the 3G data growth opportunity.

**Outlook**
CSL New World will continue to deliver high quality, innovative and relevant services to all its mobile customers through its various segments and mobile brands.

**SouFun**

**Overview**
In August 2006 Telstra purchased a 51% shareholding in SouFun, a leading Chinese real estate and home furnishing and improvement website. It provides information, advertising and listing services to China’s growing online real estate and home furnishing and improvement sectors.

**Performance highlights for the year to 30 June 2007**
- Total revenue of US$41 million and EBITDA of US$16 million.
- Launched English version of SouFun.
- Expanded product portfolio by entering adjacent markets and providing new services such as online local communities.

**Outlook**
SouFun plans to expand to 100 cities by the end of the 2008 calendar year and leverage SouFun’s platforms to grow in new markets.

**REACH**

**Overview**
REACH is a 50:50 joint venture with PCCW. REACH provides outsourcing services in support of Telstra’s and PCCW’s international voice and data services. REACH is the premier provider of international voice and satellite services in Asia. REACH operates and maintains voice and data switching platforms, satellite earth stations and a network of over forty submarine cable systems, together with associated landing rights, backhaul, operating licences and bilateral agreements in most international markets.

**Outlook**
Telstra and REACH will continue to focus on a range of initiatives aimed at securing comprehensive international voice and data services at low unit cost.
Diploma in Teaching. In addition she is a graduate of the London Business School. Andrea has over twenty years experience in the field, working in both Australian and global organisations. Andrea began her career in human resources in 1984 and has held a number of senior management positions in Telstra, including Group Managing Director, Human Resources, a position she held since 2001. Before joining Telstra, Andrea was Human Resources Director of Merck, Sharp & Dohme (New Zealand) Limited. Andrea was appointed Group Managing Director, Human Resources on 1 January 2006 after a 33-year career with Telstra. She served as a Regional Managing Director of Telstra Country Wide since its formation in June 2000, with responsibility for whole-of-business performance in Western Australia, South Australia (for all areas outside Perth and Adelaide) and the Northern Territory. Before moving to Telstra Country Wide, Geoff was National General Manager Business and Government – Energy and Resources, responsible for the sales force that account-managed Telstra’s largest customers in this sector. Prior to this, Geoff was the State Sales Manager, Business and Government in Western Australia. Geoff was most recently appointed as the Chair of Telstra’s Kids Fund and as a Director on the Telstra Foundation Board.

3. Geoff Booth – BEd, DipTch
Group Managing Director, Telstra Country Wide

Geoff Booth was appointed Group Managing Director, Telstra Country Wide on 1 July 2006 after a 33-year career with Telstra. He served as a Regional Managing Director of Telstra Country Wide since its formation in June 2000, with responsibility for whole-of-business performance in Western Australia, South Australia (for all areas outside Perth and Adelaide) and the Northern Territory. Before moving to Telstra Country Wide, Geoff was National General Manager Business and Government – Energy and Resources, responsible for the sales force that account-managed Telstra’s largest customers in this sector. Prior to this, Geoff was the State Sales Manager, Business and Government in Western Australia. Geoff was most recently appointed as the Chair of Telstra’s Kids Fund and as a Director on the Telstra Foundation Board.

4. Andrea Grant – BEd, DipTch
Group Managing Director, Human Resources

Andrea Grant was appointed Group Managing Director, Human Resources on 31 October 2006. Andrea joined Telstra from GM-Holden where she was Executive Director, Human Resources, a position she held since 2001. Before joining GM Holden, Andrea was Human Resources Director of Merck, Sharp & Dohme (New Zealand) Limited. Andrea began her career in human resources in 1984 and has over twenty years experience in the field, working in both Australian and global businesses. Andrea holds a Bachelor of Education Degree and a Post Graduate Diploma in Teaching. In addition she is a graduate of the London Business School’s Advanced Development Programme.

5. Holly Kramer – BA(Hons), MBA Mktg (Hons)
Group Managing Director, Telstra Product Management

Holly Kramer is the Group Managing Director, Telstra Product Management. Most recently, Holly held the role of Managing Director of Products, Wireless & Mobility, where she was accountable for the development and lifecycle management of Telstra’s wireless and mobility products and networks. In her previous position as Chief of Marketing for Telstra Retail, Holly was accountable for the strategic direction and implementation of marketing plans for the consumer and business markets. Before joining Telstra, Holly was General Manager of Marketing and Communications at eCarp. Prior to that, she spent three years as General Manager of Marketing with Ford Australia and five years in various marketing management positions with Ford Motor Company, USA. Holly has a BA (Hons) from Yale University and an MBA Mktg (Hons) from Georgetown University. She is Chair of the Australian Mobile Telecommunications Association (AMTA) and sits on the Boards of m.net Corporation and TelstraClear Limited.

6. Kate McKenzie – BA, LLB
Group Managing Director, Telstra Wholesale

Kate McKenzie was appointed Group Managing Director, Telstra Wholesale on 1 January 2006. Kate joined Telstra in August 2004 as head of Telstra Regulatory. Within a year she was promoted to the role of Deputy Group Managing Director, Public Policy & Communications. Prior to joining Telstra, Kate was Director General of the NSW Department of Commerce. She previously held positions as the Director General of the NSW Department of Industrial Relations, General Manager of the WorkCover Authority of NSW, and Deputy Director General of the NSW Cabinet Office. During her career, Kate has been involved in the development and implementation of competition policy, energy reform, corporatisation and privatisation and Commonwealth/State negotiations on a range of complex policy issues. Kate holds a Bachelor of Arts/Bachelor of Laws from the University of Sydney.

7. Justin Miline – BA
Group Managing Director, Telstra BigPond

Justin Miline was appointed Group Managing Director of BigPond in December 2005, following three years as BigPond Managing Director. He is responsible for driving the growth of BigPond’s brand and Telstra’s new media portfolio including mobile and online content. Under his direction, BigPond has led the market in developing online content and applications. These efforts have been recognised with several national awards including the 2006 “Kodak Gong” in the Telecommunications category, the 2005 and 2006 “email contact centre” and “ISP sales call centre” of the year as judged by Global Reviews, and the 2005 “Best ISP” award at the Australian Telecom Awards. Prior to his career at Telstra, Justin was CEO of OzEmail, formerly Telstra’s biggest ISP competitor, and Managing Director of the Microsoft Network in Australia. Justin is a board member and past president of the Internet Industry Association. He holds a Bachelor of Arts from Flinders University.

8. David Moffatt – BBus (Mgt), FCPA
Group Managing Director, Telstra Consumer Marketing and Channels

David Moffatt was appointed Group Managing Director, Telstra Consumer Marketing and Channels on 1 October 2005. The group is responsible for providing broadband, mobile and fixed communications products and services to Australian consumers. It is also responsible for the management of Telstra’s Shops, Dealers and Telstra’s Consumer Call Centres. David is a Director of FOXTEL. He joined Telstra in February 2001 as the company’s Chief Financial Officer and Group Managing Director, Finance and Administration. Prior to Telstra David spent 10 years at General Electric Inc where he was CEO of GE and GE Capital, Australia and New Zealand.
9. Michael Rocca – MBA, DipEng, FAICD
Group Managing Director Telstra Services

Michael Rocca was appointed Group Managing Director, Telstra Services in August 2002. He has over three decades of experience in telecommunications over a variety of senior executive roles. Telstra Services comprises of approximately 15,000 Telstra staff as well as an extensive contract workforce, and is responsible for the end to end delivery of service to Telstra’s customers over all of Telstra’s networks, including fixed line, mobile and satellite. Michael holds a Master of Business Administration, a Diploma of Engineering, as well as a range of qualifications in management. He is also a fellow of the Australian Institute of Company Directors.

10. Deena Shiff – BSc (Econ) Hons, BA (Law) Hons
Group Managing Director, Telstra Business

Deena Shiff was appointed to the role of Group Managing Director, Telstra Business in January 2006. Prior to that, Deena held the role of Group Managing Director, Telstra Wholesale. Deena started her career in telecommunications with the former OTC Ltd in 1989. Deena held a number of positions in Telstra, including General Manager Corporate Affairs in the International Business Unit. Between 1995 and 1998, Deena was a partner in the Corporate Advisory Section of the law firm Mallesons Stephen Jaques. Deena rejoined Telstra in 1998 as Director of Regulatory. Deena has held a number of non-executive directorships in both the telecommunications industry and other sectors. Deena has an Economics degree from the London School of Economics and a law degree from Cambridge University. She was admitted to the Bar in London in 1981.

11. John Stanhope – BCom (Economics & Accounting), FCPA, FCA, FAICD, FAIM
Chief Financial Officer and Group Managing Director, Finance & Administration

John Stanhope was appointed to the role of Chief Financial Officer and Group Managing Director, Finance & Administration on 1 October 2003. He is responsible for finance, treasury, risk management and assurance, corporate planning, reporting and analysis, business services, investor relations and the Office of the Company Secretary. John also managed Telstra’s involvement in the Federal Government’s T3 sale of Telstra shares. John previously served as Director, Finance. In this role, which he assumed in 1995, he contributed to the T1 and T2 share sales, cost reduction programs, growth strategies, debt raising, capital management and organisational restructures. Since joining Telstra in 1967, John has held a number of operational roles and more recently a range of senior financial management positions including General Manager, Strategy and Finance – Special Business Products, General Manager, Finance and Business Planning – Network Products, and Executive General Manager – Business Support Services. He is chairman of the Business Coalition for Tax Reform, and was appointed to the Financial Reporting Council in 2006. He serves on the executive committee, and is immediate past president, of the Group of 100. John is a Director of Telstra Super, TelstraClear, Sensis, SouFun, the Telstra Foundation and 3GIS, and is Chairman of CSL New World Mobility.

12. William Stewart – BSc (Mathematics & Physics)
Group Managing Director, Strategic Marketing

Bill Stewart was appointed Group Managing Director, Strategic Marketing in July 2005. Prior to his appointment at Telstra, Bill was Executive Vice President of Strategic Marketing at Orange SA, based in London. Bill has over twenty-five years experience in the communications industry, including positions at Harris Corporation, GTE Corporation and US West. Bill has an excellent record of achievement in driving customer-focused strategies and world class marketing in the US and Europe. Bill is also a director of CSL New World Mobility Limited, REACH and FOXTEL.

13. David Thodey – BA, FAICD
Group Managing Director, Telstra Enterprise and Government

David Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobile. He was appointed to the position of Group Managing Director, Telstra Enterprise and Government in December 2002 and is now responsible for our corporate, government and large business customers. Before joining Telstra, David was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive marketing and sales positions within IBM. David is the Chairman of TelstraClear in New Zealand, and is also the Chairman of the KAZ Group. He holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand. David attended the Kellogg Post-Graduate School’s General Management Program at Northwestern University in Chicago.

14. Greg Winn
Chief Operations Officer

Greg Winn was appointed Telstra’s Chief Operations Officer (COO) on 11 August 2005. His responsibilities include Telstra Services, Product Management, Billing, Credit Management, Procurement, Strategic Supplier Relations and Network, Information and Wireless Technologies. Greg also manages the cross company Program Office. He has more than 30 years experience in the telecommunications industry, with more than ten years experience as a senior operations officer. Prior to joining Telstra, Greg served as Executive Vice President, Operations and Technologies at US West, where he established and led major initiatives to increase productivity through process and technology improvements. Greg held positions in network services, corporate finance, small business services, product management, marketing and sales. Greg attended Arizona State University.

For a full discussion of the remuneration and benefits paid to the CEO, directors and senior executives who are key management personnel, see the detailed Remuneration Report in the Annual Report or visit the Telstra Investor Relations website at www.telstra.com.au/abouttelstra/investor/annual_reports.cfm

A remuneration report summary appears on page 24 to 27 of this shareholder update.
1. Donald G McGauchie – AO
Age 57
Chairman
Mr McGauchie joined Telstra as a non-executive director in September 1998 and was appointed as Chairman in July 2004. He is Chairman of the Nomination Committee and is a member of the Remuneration Committee.
Experience:
Mr McGauchie has wide commercial experience within the food processing, commodity trading, finance and telecommunication sectors. He also has extensive public policy experience, having previously held several high-level advisory positions to the government including the Prime Minister’s Supermarket to Asia Council, the Foreign Affairs Council and the Trade Policy Advisory Council.
Directorships of other listed companies – current:
Director, James Hardie Industries NV (2003- ) and Nufarm Limited (2003- ).

2. Solomon D Trujillo – BSc, BBus, MBA, Hon Doctor of Law Degrees (University of Wyoming, University of Colorado)
Age 55
Chief Executive Officer
Mr Trujillo joined Telstra as CEO on 1 July 2005.
Experience:
Mr Trujillo has spent his career in the communications sector where he managed fixed line, wireless, broadband and directory businesses and served as a leader in the shift to market-based management. He most recently served as CEO of Orange SA, one of Europe’s leading wireless companies. Mr Trujillo was Chairman and CEO of US West until he retired in July 2000 after the company’s merger with Qwest Communications.
Directorships of other listed companies – current:
Director, Target Corporation (1994- ).

3. Geoffrey Cousins
Age 64
Mr Cousins joined Telstra as a non-executive director on 14 November 2006.
Experience:
Mr Cousins has more than 26 years experience as a company director. Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network, Hoyts Cinemas group and NM Rothschild & Sons Limited. He was the first CEO of Optus Vision and before that held a number of executive positions at George Patterson, including CEO of George Patterson Australia.

4. Belinda J Hutchinson – BEc, FCA
Age 54
Ms Hutchinson joined Telstra as a non-executive director in November 2001. She has been a member of the Audit Committee since February 2005.
Experience:
Ms Hutchinson has had a long association with the banking industry and has been associated with Macquarie Bank since 1993 where she was an Executive Director. She was previously a Vice President of Citibank Ltd.
Directorships of other listed companies – current:

5. Catherine B Livingstone – BA (Hons), FCA, FTSE
Age 51
Ms Livingstone joined Telstra as a non-executive director in November 2000. She is a member of the Audit Committee and the Technology Committee.
Experience:
Ms Livingstone has a degree in accounting and has held several finance and general management roles predominantly in the medical devices sector. Ms Livingstone was the CEO of Cochlear Limited (1994-2000).
Directorships of other listed companies – current:

6. Charles Macek – BEc, BAdmin, FAICD, FCPA, FAIM, SF Fin, FCA
Age 60
Mr Macek joined Telstra as a non-executive director in November 2001. He is a member of the Audit Committee and Nomination Committee and is Chairman of the Remuneration Committee.
Experience:
Mr Macek has a strong background in economics and has had a long association with the finance and investment industry. His former roles include 16 years as founding Managing Director and Chief Investment Officer and subsequently Chairman of County Investment Management Ltd.
Directorships of other listed companies – current:
Director, Wesfarmers Ltd (2001- ).

7. John W Stocker – AO, MB, BSc, BMedSc, PhD, FRACP, FTSE
Age 62
Dr Stocker joined Telstra as a non-executive director in October 1996. He is Chairman of the Audit Committee and Technology Committee.
Experience:
Dr Stocker has had a distinguished career in pharmaceutical research and extensive experience in management of research and development, and its commercialisation including in his roles as CEO of CSIRO (1990–1995) and subsequently as Chief Scientist for the Commonwealth of Australia (1996–1999).
Directorships of other listed companies – current:

8. Peter J Willcox – MA, FAICD
Age 61
Mr Willcox joined Telstra as a non-executive director in May 2006. He is a member of the Nomination Committee and the Remuneration Committee.
Experience:
Mr Willcox holds a degree in physics from Cambridge University and following a 28 year career in the international petroleum industry was appointed as CEO of BHP Petroleum Limited, from 1986 to 1994. He has wide and diverse experience as a director and Chairman of Australian and American listed companies.

9. John D Zeglis – BSc Finance, JD Law
Age 60
Mr Zeglis joined Telstra as a non-executive director on 17 May 2006.
Experience:
Mr Zeglis has a legal background, and became partner with the law firm Sidney & Austin in 1978. His qualifications include a BSc in finance from the University of Illinois, and a JD in law from Harvard. Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected as President of AT&T in 1998 and Chairman and CEO of the AT&T Wireless Group in 1999. He continued as CEO of AT&T Wireless until retiring in November 2004 following the company’s sale to Cingular Wireless.
Directorships of other listed companies – current:

For a full discussion of the remuneration and benefits paid to the CEO, directors and senior executives who are key management personnel, see the detailed Remuneration Report in the Annual Report or visit the Telstra Investor Relations website at www.telstra.com.au/abouttelstra/investor/annual_reports.cfm
Corporate social responsibility (CSR)

At Telstra, our commitment to corporate responsibility is to be principled in all that we do. As an organisation that touches every corner of this country, we know that delivering on our primary corporate responsibilities will make a significant contribution to the country.

Our primary corporate responsibilities are to:

- provide good jobs at good wages;
- serve the needs of our customers;
- increase shareholder value and protect shareholder interests;
- minimise our burden on resources and provide good environmental stewardship; and
- voluntarily contribute our resources, people, technology, products and services to support the community. Over the past year we have undertaken a range of initiatives that help us address our corporate responsibilities, from the way we conduct our business through to the initiatives that we have established with different sectors of the community.

The Community

Telstra provided relief packages to customers affected by natural disasters such as the flooding events across Gippsland in June 2007. Our relief packages for affected customers include:

- free call diversion from a fixed service to a mobile service of the customers’ choice, regardless of carrier;
- Telstra mobile customers who report the loss of their Telstra fixed service due to the disaster will be charged at fixed line rates, in accordance with their selected Homeline® or BusinessLine® plan, for local and STD® calls made on their mobile service.

In July 2007, we announced the Telstra Assistance Fund will provide more than $1 million in vital equipment and materials to local sporting clubs across the country. Over the past year the Fund has delivered around $3 million worth of much needed equipment to more than 1,500 clubs around Australia.

Now in its sixth year, the Telstra Foundation® continues to help Australian children and young people reach their potential and build stronger and more cohesive communities through its two key programs, the Community Development Fund and the Telstra Kids Fund. The Telstra Foundation® has again this year been able to support 851 projects across Australia totalling $4.3 million. In February 2007 the Telstra Foundation® made two major funding announcements: a $1.2 million program to help Indigenous children across Australia stay at school and reach their full potential, and $1.8 million over three years in new grants to help isolated children and young people across Australia have a better quality of life.


Environment

In March 2007 half a million Telstra customers started receiving a single monthly bill for their Telstra services, saving 8 tonnes of paper a year. This is only the beginning. We also offer our customers the option of going online to view and pay their bill, and turn off their paper bills altogether – saving more time and trees.

Telstra successfully trialled a water-saving pilot program and will implement the measures in its commercial buildings and some exchanges around Australia through the installation of innovative new water-saving technologies. This will save 83 million litres of water annually from these initiatives alone – the equivalent of almost 33 Olympic size swimming pools or the annual consumption of a small town with 800 households. Further water savings are expected when this pilot is rolled out nationwide.


Our marketplace

In October 2006 we switched on our Next G™ network which is having a tremendously positive impact on the lives of Australians, particularly those living and working in remote communities. For example, the Next G™ network has allowed the CFA to provide better and more responsive services to people in need in rural Australia, as seen in Victoria’s bushfires last summer. The Next G™ network has enabled remote schools to adopt a more relevant and interactive curriculum – bringing the outside world into the classroom in real-time.

Our workplace

We are investing in our people and investing in our culture so that Telstra will be a more responsive and more rewarding place to work.

As part of a $200 million investment in training over five years, Telstra has established a new Telstra Learning Academy to provide growth opportunities for our technicians. Our investment in the skills and knowledge of our people, along with new products and services represents an investment in Telstra’s capacity to meet the increasingly complex needs of all of our customers, creating greater shareholder value.

We continue to develop an equitable, respectful and diverse workforce. For example, Telstra’s Gender Taskforce has recently celebrated the establishment of the Virtual Women’s Network (VWN), a network of Telstra women established to meet on a regular basis.

Remuneration report summary

The key objective of Telstra’s transformation strategy is to lay the foundations for sustained increases in earnings and shareholder wealth going forward. The transformation objectives set by the Board represent the measures the Board considers to be essential to the enhancement of shareholder wealth and the delivery of superior earnings. Our remuneration structure continues to reflect this and plays a key role in driving the achievement of the transformation objectives.

By linking senior executive rewards to achievement of the transformation strategy, the interests of shareholders and senior executives are aligned.

Please note that the following remuneration report summary does not contain all the detailed disclosures required by the Corporations Act. To view the detailed Remuneration Report refer to the 2007 Annual Report and/or the Telstra Investor Relations website at www.telstra.com.au/abouttelstra/investor/annual_reports.cfm.

Telstra competes in an increasingly competitive global market for executive talent. Accordingly, it is crucial that we proactively manage our senior executive and director remuneration to ensure it successfully attracts, motivates and retains the highest quality individuals required to deliver Telstra’s business transformation strategy.

1. Remuneration strategy

The remuneration strategy for the CEO, COO and senior executive team has been positioned to drive the delivery of the transformation milestones that have been outlined in Telstra’s business strategy. From fiscal 2006 through to fiscal 2010, the remuneration strategy will be based on performance measures that are strongly aligned to achieving those transformation milestones as well as other traditional business measures. In fiscal 2006 and fiscal 2007 the performance measures were heavily weighted towards driving transformation. This weighting will shift over future fiscal years to return to a more traditional position of using:

- operational measures for the STI; and
- growth and return measures for the LTI.

2. Remuneration structure

For fiscal 2007, the remuneration structure for the senior executives comprised the following components:

<table>
<thead>
<tr>
<th>Component</th>
<th>At-risk?</th>
<th>Description</th>
</tr>
</thead>
</table>
| Fixed remuneration     | No       | Fixed remuneration is made up of:
|                         |          | • base salary including salary sacrifice benefits and applicable fringe benefits tax; and
|                         |          | • superannuation.                                                           |
| Short term incentive (STI) | Yes      | The STI for fiscal 2007 is an annual “at risk” component of remuneration for the senior executives and is delivered in cash and Incentive Shares, except for the Chief Operations Officer (COO) where all is delivered as cash. The objective of the STI plan is to reward executives where they meet annual business objectives and their own individual performance targets. |
| Long term incentive (LTI) | Yes      | The LTI for fiscal 2007 is a grant of Options which are subject to performance measures tested over a 2-4 year period. The objective of the LTI plan is to reward executives for delivering sustained growth in shareholder value and achieving key transformation milestones. |

To strengthen the link between senior executive remuneration and company performance, the Board has determined that a significant proportion of the total remuneration for the senior executives should be “at risk” representing components that are awarded based on performance. If the minimum performance level is not achieved, no STI or LTI will be awarded and the executive receives 100% of fixed remuneration and 0% of their “at risk” remuneration. This means senior executives will only earn significant rewards if pre-determined company measures and targets are achieved.

The remuneration mix for fiscal 2007 has incorporated a greater proportion of “at-risk” remuneration in order to meet Telstra’s transformation priorities.

3. Executive Share Ownership Policy

Telstra believes that where senior executives have a substantial holding of Telstra shares this creates a strong alignment between executive reward, company success and returns to shareholders. With this in mind, Telstra has introduced an Executive Share Ownership Policy to ensure that the market performance of the company will have a direct economic impact on the individual executive.

The minimum holding for the senior executives who constitute the Key Management Personnel (KMP’s), excluding the Chief Executive Officer (CEO) and Chief Operations Officer (COO), is that they must acquire and retain a minimum number of shares equivalent to 100% of their Fixed Remuneration. This is to be achieved over a 5 year period commencing from 1 July 2007.

4. Fixed remuneration

Fixed remuneration for the CEO, COO and other senior executives is influenced by the scope of the role and the knowledge, skills and experience required of the executive. To ensure remuneration is market competitive, the Remuneration Committee takes into account local, home country and global market rates. In determining what market rates to use for comparison purposes the Remuneration Committee assesses a range of factors including company size (based on market capitalisation), industry in which the comparative company operates and global footprint.

For superannuation, in addition to mandatory contributions, the senior executives may voluntarily salary sacrifice additional amounts, subject to legislative requirements.

Fixed remuneration is reviewed annually as part of the company’s overall remuneration review process and is assessed against the company’s and the individual’s performance.

5. Short term incentive (STI)

The STI component delivers reward on achievement of annual performance targets.

Depending on the role they perform, each senior executive has an STI opportunity ranging from 120% – 200% of their fixed remuneration, where maximum performance is met. The maximum STI opportunity varies according to the role.
Figure 1: STI performance measures for fiscal 2007

<table>
<thead>
<tr>
<th>Remuneration element</th>
<th>Performance measures</th>
<th>Weighting</th>
<th>How is it measured?</th>
<th>Link to business strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>STI* (Cash and Incentive Shares)</td>
<td>Company Financial</td>
<td>20%</td>
<td>EBITDA – Earnings before interest, tax, depreciation, amortisation.</td>
<td>To achieve earnings objective.</td>
</tr>
<tr>
<td></td>
<td>Revenue Growth</td>
<td>20%</td>
<td>Company revenue and Public Switched Telephone Network (PSTN) revenue.</td>
<td>To strengthen existing revenue streams while driving the development of new revenue and overall growth.</td>
</tr>
<tr>
<td></td>
<td>Network Transformation Milestones</td>
<td>25%</td>
<td>A mixture of network measures including Next G™ network launch, IP core deployment, HFC upgrade and ADSL2+.</td>
<td>To deliver on the transformation network strategy that enables revenue growth and reduces cost.</td>
</tr>
<tr>
<td></td>
<td>Broadband marketshare</td>
<td>15%</td>
<td>The increase in Telstra's share of retail broadband customers.</td>
<td>To achieve an increase in Telstra's retail broadband marketshare.</td>
</tr>
<tr>
<td></td>
<td>Individual accountabilities</td>
<td>20%</td>
<td>The achievement of personal goals which include business unit specific targets.</td>
<td>To align the individual's personal goals with the business' goals.</td>
</tr>
</tbody>
</table>

*In the case of Bruce Akhurst the STI is measured against Sensis Revenue and EBIT contribution which make up 60% of his STI, Telstra STI measures (as detailed above) make up a further 20% and the remaining 20% is based on individual accountabilities. In the case of Kate McKenzie the broadband marketshare measure is replaced with a Telstra Wholesale specific performance measure.

As part of the fiscal 2007 STI the senior executives, excluding the CEO and COO will receive 25% of their actual STI payment in the form of Incentive Shares.

6. Long term incentive (LTI)

The LTI component rewards delivery of sustained shareholder growth and achievement of key transformation milestones.

The LTI plan for fiscal 2007 has been strengthened to focus executives on delivering superior Total Shareholder Return (TSR) through the successful delivery of the transformation strategy. The LTI plan drives this objective by:

- incorporating a TSR gateway of 11.5% compound annual growth, tested over the 4 years of the plan to 2010, to guarantee a minimum level of shareholder value that must be achieved before any Options can be exercised (including those that have previously vested);
- calibrating performance measures with the transformational outcomes and timeframes;
- using Options to leverage reward outcomes for executives and drive share price growth; and
- providing reward only for significant performance.

How Options are allocated

In order to reinforce the importance of the transformation strategy and our need to deliver extraordinary results and shareholder value the fiscal 2007 LTI plan is an enhanced “one off” allocation for performance over the four year period from 1 July 2006 through to 30 June 2010.

Figure 2: Overview of Fiscal 2007 LTI Performance Option Plan

<table>
<thead>
<tr>
<th>Tranche 1</th>
<th>Tranche 2</th>
<th>Tranche 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of total grant</td>
<td>Tested based on performance over...</td>
<td>Vesting based on...</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Two thirds:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>One third:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Two thirds:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>One third:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Two thirds:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. Chief Executive Officer remuneration

During fiscal 2007 the Board undertook an extensive review of the remuneration arrangements for the CEO. The revised remuneration arrangements reflect the importance of the transformation required at Telstra and of the competitive domestic and global CEO market. The new arrangements further reinforce the principle of linking significant proportions of the CEO’s reward to company performance.

**Fixed remuneration remains at $3 million including superannuation.**

The CEO has a STI cash opportunity of 100% of fixed remuneration where maximum performance is met. In addition, he will receive Telstra deferred shares to a value equivalent to his cash STI payment for the year. Where the senior executives are required to receive 25% of their actual STI payment in Telstra shares, the above arrangement effectively requires the CEO to take 50% of the total actual value of his STI in the form of Telstra deferred shares.

The CEO’s STI payment is determined by the Board based on the same performance measures as detailed in figure 1 and by assessment of his individual performance objectives by the Board.

The CEO will receive a LTI allocation over the next 3 years as follows:
- 10,344,828 Options for fiscal 2007;
- 5,172,414 Options for fiscal 2008; and

As explained previously in section 6, the allocation of Options to the CEO in fiscal 2007 is a larger than usual one-off allocation that reflects the importance of the transformation strategy.

The key conditions for the CEO’s fiscal 2007 allocation are:
- The allocation is subject to a 2 year performance period;
- The Options have an exercise price of $3.67 being the volume weighted average price of Telstra shares traded in the five trading days prior to grant date;
- Options may vest, subject to meeting the prescribed performance hurdles that are aligned with the performance measures described in Figures 2 & 3, at 30 June 2008; and
- Options can be exercised between 1 January 2009 and 31 December 2009, however, a restriction applies on the trading of any shares received upon exercise of vested options until 30 June 2009 if he is still employed by Telstra or has resigned for other than good reasons.

8. Details of senior executives’ remuneration

Set out in figure 4 is the remuneration of our CEO and the senior executives who are key management personnel (KMP). These executives had authority and responsibility for planning, directing and controlling the activities of Telstra and its controlled entities during fiscal 2007. They also include the five highest remunerated executives.
Figure 4: 2007 Senior executives’ remuneration

**Salary and Fees:** Includes salary, salary sacrificed benefits (other than superannuation), leave provisions and fringe benefits tax.

**Short Term Incentives:** Includes the cash component of annual bonuses payable in relation to fiscal 2007.

**Non-monetary benefits:** Such as the value of goods and services provided as well as the value of the interest free loan under TESOP 97 and TESOP 99.

**Other equity:** Options, restricted shares & options granted under Telstra’s LTI plans. This includes amounts accrued for current and prior year LTI grants.

<table>
<thead>
<tr>
<th>Name</th>
<th>Salary and Fees</th>
<th>Short term Incentives</th>
<th>Non-monetary benefits</th>
<th>Other</th>
<th>Superannuation</th>
<th>Termi-</th>
<th>Other</th>
<th>Short term Incentive Shares</th>
<th>Deferred shares</th>
<th>Other equity</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fortress</td>
<td>9,582,355</td>
<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
<td>426,311</td>
<td>1,985</td>
<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>Bruce Akhurst</td>
<td>9,582,355</td>
<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
<td>426,311</td>
<td>1,985</td>
<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>Kate McKenzie</td>
<td>9,582,355</td>
<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
<td>426,311</td>
<td>1,985</td>
<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>David Moffatt</td>
<td>9,582,355</td>
<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
<td>426,311</td>
<td>1,985</td>
<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>Deena Shiff</td>
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<td>1,202,311</td>
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<td>1,822,858</td>
<td>426,311</td>
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<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>John Stanhope</td>
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<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
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</tr>
<tr>
<td>David Thodey</td>
<td>9,582,355</td>
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<td>2,045</td>
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<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>Gregory Winn</td>
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<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
<td>426,311</td>
<td>1,985</td>
<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
<tr>
<td>TOTAL</td>
<td>9,582,355</td>
<td>3,950,895</td>
<td>1,202,311</td>
<td>2,045</td>
<td>1,822,858</td>
<td>426,311</td>
<td>1,985</td>
<td>1,157,244</td>
<td>621,575</td>
<td>237,000</td>
<td>12,758,323</td>
</tr>
</tbody>
</table>

(1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.

(2) Short term incentive relates to performance in fiscal 2007 and is based on actual performance for Telstra and the individual and represents the cash element and not the amount payable as restricted Incentive Shares.

(3) Includes the benefit of interest-free loans under TESOP97 and TESOP99, the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra employment.

(4) Includes payments made to executives in accordance with their relocation agreement and which are classified as remuneration under the accounting standards.

(5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.

(6) This includes the value of Short Term Incentive Shares allocated under the 2004/05 STI Equity plan whereby 50% of the STI payment was provided as shares to be distributed over 3 years at 12 month intervals. It also includes 25% of the actual STI payment for fiscal 2007 which will be provided as restricted Incentive Shares under the 2006/07 STI Incentive Share plan. The values shown represent the annualised value for fiscal 2007 in accordance with the relevant accounting standards.

(7) The value included in deferred shares relates to the current year amortised value of vested and unvested shares issued in fiscal 2004 under the Deferred Remuneration Plan. The values shown represent the annualised value for fiscal 2007 in accordance with the relevant accounting standards.

(8) The value represents the annualised value of performance rights and options. The executive only receives value if the performance hurdles are met.

(9) This represents 50% of the total actual STI payment to the CEO which will be delivered as deferred shares. The deferred shares cannot be exercised until the earlier of 30 June 2009 or 6 months after termination of employment.

(10) Includes a cash bonus for delivery of the Next G™ wireless network as approved by the Telstra Board.
<table>
<thead>
<tr>
<th>Term</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3G 2100</td>
<td>Third Generation mobile technology operating on 2100MHz spectrum. Telstra offers this technology on a network owned in partnership with Hutchison Telecommunications Australia (HTA).</td>
</tr>
<tr>
<td>3G 850</td>
<td>Third Generation mobile technology operating on 850MHz spectrum: Telstra’s own new national network, the Next G™ network uses 3G-HSDPA on 850MHz, a technology enhancement which provides greater breadth, much faster speeds when using HSDPA handsets and lower capital costs as 850 requires fewer base stations than 2100MHz to achieve the same coverage.</td>
</tr>
<tr>
<td>3G GSM</td>
<td>Third Generation Global System for mobile communications – is the evolution of the current GSM and CDMA 2G and 2.5G technology to support voice and high speed data and multimedia services.</td>
</tr>
<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission – the body responsible for regulating competition in the telecommunications industry.</td>
</tr>
<tr>
<td>ADSL</td>
<td>Asymmetric Digital Subscriber Line – is a broadband technology that provides access to the internet at fast speeds. ADSL – sometimes shortened to simply ‘DSL’ - uses a data transmission technology that allows high speed data to be carried over everyday copper network phone lines. These data rates can enable the delivery of voice, data and video services.</td>
</tr>
<tr>
<td>ADSL2+</td>
<td>An enhanced version of ADSL that provides improved performance and even higher data speeds, up to 20 Mbps.</td>
</tr>
<tr>
<td>ASX</td>
<td>Australian Stock Exchange Limited</td>
</tr>
<tr>
<td>CDMA</td>
<td>Code Division Multiple Access – a mobile standard which provides voice, data, fax and short messaging services.</td>
</tr>
<tr>
<td>DSLAM</td>
<td>Digital Subscriber Line Access Multiplexer - technology located at exchanges or in roadside cabinets that take the copper lines from a customer premises and convert signals on/off them into a high speed pipeline to the internet.</td>
</tr>
<tr>
<td>FTTN</td>
<td>Fibre to the node – infrastructure that delivers fibre close to the customer premises. FTTN can deliver broadband data and potentially television services to customer premises.</td>
</tr>
<tr>
<td>GSM</td>
<td>Global System for Mobile Communications – one of Telstra’s two digital networks. GSM covers 96% of the Australian population.</td>
</tr>
<tr>
<td>HFC</td>
<td>Hybrid-fibre coaxial</td>
</tr>
<tr>
<td>IP</td>
<td>Internet Protocol – is a standard set of rules for the carriage of digital information such as voice, video, data and images, across a global network.</td>
</tr>
<tr>
<td>IP Core</td>
<td>The core element of a network which carries and logically splits voice, data and video using IP technology.</td>
</tr>
<tr>
<td>ISP</td>
<td>Internet Service Provider - A company that connects individuals or organisations to the Internet. Can range in size from an individual operating dial-up access, to providers operating substantial network backbones and fast cable modem access.</td>
</tr>
<tr>
<td>LSS</td>
<td>Line Sharing Service or Spectrum Sharing Service – allows access seekers (ie competitors) to supply broadband services to customers while the access provider (ie Telstra) supplies voice services to the customer over the copper lines (copper line split between voice and data).</td>
</tr>
<tr>
<td>MMS</td>
<td>Multimedia Messaging Service – allows mobile phone users to send photos, pictures and sounds to other phones and to email recipients.</td>
</tr>
<tr>
<td>Next G™</td>
<td>Telstra’s trade mark name for its 3GSM850 mobile network. Telstra’s Next G™ high speed mobile network provides Australians with the ability to make and receive video calls, watch mobile TV, access sports, news and entertainment on the move, receive emails and download and play music, as well as make voice calls and send text messages from their mobile phones.</td>
</tr>
<tr>
<td>Next IP™</td>
<td>Cost effective scalable IP end-to-end IP network, supporting richer, faster, broadband and Ethernet services and voice services with guaranteed Quality of Service, from copper, HFC and 3G access using multiple CPE devices. Telstra’s Next IP™ network enables legacy network and service rationalisation leading to simplified networks and services.</td>
</tr>
<tr>
<td>PSTN</td>
<td>Public Switched Telephone Network - Generic term for public telephone networks. Often referred to as “fixed-line” the PSTN is the standard home telephone service, delivered over underground copper wires.</td>
</tr>
<tr>
<td>SME</td>
<td>Small to medium size enterprise</td>
</tr>
<tr>
<td>SMS</td>
<td>Short Messaging Service - The text based message service on mobile phones. Also known as “text messages”.</td>
</tr>
<tr>
<td>ULLS</td>
<td>Unconditioned Local Loop Service – The Local Loop is the copper wire that connects the Telstra exchange in your area to your house. Telstra is required to provide access to this wire to other operators – this connection is known as “Unconditioned or Unbundled Local Loop”. Other telecommunications providers can provide customers with their own services - like broadband and the plain old telephone service - by installing their own equipment in Telstra exchanges and connecting to the “loop”.</td>
</tr>
<tr>
<td>VoIP</td>
<td>Voice over IP – voice calls over the internet.</td>
</tr>
</tbody>
</table>
Telstra facts
Telstra market share at 30 June

Retail broadband (subscribers)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>41%</td>
</tr>
<tr>
<td>'06</td>
<td>44%</td>
</tr>
<tr>
<td>'07</td>
<td>47%</td>
</tr>
</tbody>
</table>

Mobile (subscribers)(1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>45%</td>
</tr>
<tr>
<td>'06</td>
<td>43%</td>
</tr>
<tr>
<td>'07</td>
<td>43%</td>
</tr>
</tbody>
</table>

Basic access (lines)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>72%</td>
</tr>
<tr>
<td>'06</td>
<td>71%</td>
</tr>
<tr>
<td>'07</td>
<td>71%</td>
</tr>
</tbody>
</table>

Subscription TV (FOXTEL) (subscribers)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>60%</td>
</tr>
<tr>
<td>'06</td>
<td>60%</td>
</tr>
<tr>
<td>'07</td>
<td>60%</td>
</tr>
</tbody>
</table>

(1) Market share based on Telstra, Optus, Vodafone and Hutchison data to 30 June 2007. Source: Telstra estimates

Shareholder breakdown
Total Retail Shareholders (holding less than 100,000 shares) at 06 September 2007

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Shareholders</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Capital Territory</td>
<td>32,472</td>
<td>77,329,961</td>
</tr>
<tr>
<td>New South Wales</td>
<td>470,117</td>
<td>1,368,154,792</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>7,362</td>
<td>15,438,197</td>
</tr>
<tr>
<td>Queensland</td>
<td>231,288</td>
<td>725,308,603</td>
</tr>
<tr>
<td>South Australia</td>
<td>109,676</td>
<td>273,819,291</td>
</tr>
<tr>
<td>Tasmania</td>
<td>22,118</td>
<td>53,809,347</td>
</tr>
<tr>
<td>Victoria</td>
<td>471,082</td>
<td>1,261,786,063</td>
</tr>
<tr>
<td>Western Australia</td>
<td>149,476</td>
<td>401,644,249</td>
</tr>
<tr>
<td>Total Australia</td>
<td>1,493,601</td>
<td>4,177,290,503</td>
</tr>
</tbody>
</table>

Contact details
Registered Office
Level 41, 242 Exhibition Street
Melbourne Victoria 3000 Australia
Carmel Mulhern
Company Secretary
email: companysecretary@team.telstra.com
General Enquiries – Registered Office
Australia: 1300 368 387
All Other: +61(8) 8308 1721
Shareholder Enquiries
Australia: 1300 88 66 77
All Other: +61(2) 8280 7756
Fax: +61(2) 9287 0303
e-mail: telstra@linkmarketservices.com.au
Telstra Corporation Limited
Incorporated in the Australian Capital Territory
Telstra is listed on Stock Exchanges in Australia and in New Zealand (Wellington)

Investor Relations
Level 36, 242 Exhibition Street
Melbourne Victoria 3000 Australia
Ph: +61(3) 9634 8014
e-mail: investor.relations@team.telstra.com
The Telstra Share Registrar
Link Market Services Limited
PO Box A942
Sydney South NSW 1234 Australia
Websites
Telstra’s investor relations home page: www.telstra.com.au/abouttelstra/investor
Telstra’s interactive advocacy website: www.nowwearetalking.com.au

Financial Calendar

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Half year results announcement</td>
<td>21 Feb</td>
</tr>
<tr>
<td>Ex-dividend share trading commences</td>
<td>3 Mar</td>
</tr>
<tr>
<td>Record date for interim dividend</td>
<td>7 Mar</td>
</tr>
<tr>
<td>Interim dividend paid</td>
<td>4 Apr</td>
</tr>
<tr>
<td>Annual results announcement</td>
<td>13 Aug</td>
</tr>
<tr>
<td>Ex-dividend share trading commences</td>
<td>25 Aug</td>
</tr>
<tr>
<td>Record date for final dividend</td>
<td>29 Aug</td>
</tr>
<tr>
<td>Final dividend paid</td>
<td>26 Sep</td>
</tr>
<tr>
<td>Annual General Meeting</td>
<td>TBA</td>
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</table>

(1) Market share based on Telstra, Optus, Vodafone and Hutchison data to 30 June 2007. Source: Telstra estimates

Credit Ratings

<table>
<thead>
<tr>
<th>Standard &amp; Poor's</th>
<th>Moody's</th>
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<tbody>
<tr>
<td>A</td>
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Long term credit rating

Common shareholder questions

Q. How can I access and change information about my shareholding?
A. You can contact the Telstra Share Registry on 1300 88 66 77 or you can visit our website at www.telstra.com.au/abouttelstra/investor/services.cfm. From this site you can access your holding information, you can make changes to your holding record, or you can download forms to complete and return to the Telstra Share Registry to ensure that your details are up to date.

To access your shareholder information via this secure website you will need to log in using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), as well as your surname or company name and postcode.

Q. How do I become an electronic shareholder?
A. Visit our Share Registry’s website www.linkmarketservices.com.au/telstra, and choose the “Become an e-shareholder” option and follow the prompts. Alternatively you can call our Share Registry on 1300 88 66 77.