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Full year financial results ahead of guidance and earnings momentum gathers pace.

Dear shareholder

It is my pleasure to write to you today about the job your team at Telstra is doing. The men and women of Telstra have delivered truly market-leading results...again. Our team is focused on the job at hand and determined to be world class as we continue into the 19th month of our 5-year transformation journey. We are not there yet, but I can assure you that we are fully committed to reaching the high standards of performance we have set for ourselves in the work we are doing for you.

I am pleased to send you this letter because our team at the New Telstra has delivered for shareholders and the consumer – including the businesses and communities that rely on us to help them stay connected to each other and the world around us.

What's the bottom line? Over the past 12 months the New Telstra has achieved world leading performance across the business. Even though we are only 19 months into our five-year transformation, I am encouraged and pleased about our progress. Think about the following:

- Earnings are up: sales revenues are up; and we are winning in key, highly-competitive markets;
- Full year revenue and earnings came in ahead of guidance – and second half earnings before interest and tax (EBIT) are up a whopping 42%;
- We report market share gains and revenue growth in broadband;
- We had strong revenue growth in mobiles;
- We now have positive residential PSTN (fixed home phone) customer growth;
- We have slowed the decline in overall PSTN; and
- We are creating market-leading innovative new products and services.

When our transformation plan was announced back in November 2005, it was considered by some to be too ambitious, involving too many moving parts. It is ambitious: The scale and scope of the transformation to the New Telstra are unprecedented amongst telecommunication companies around the world. The world is watching us, and now – less than two years after we started this journey – we are setting the new global benchmark. We've had ups and downs – and we have done better in some areas than in others. But, the benefits of transformation investment are starting to materialise and the results are clear for all to see.

During this period, many analysts and media commentators reflected negative sentiment toward Telstra's performance and future prospects...and every reporting period we exceeded the predictions of the sceptics. Our focus on customers and shareholders is the key to our steady improvement. Our people know what Telstra is about and they are delivering.

Our transformation investment peaked this financial year, as we highlighted in the T3 prospectus and again at the half-year results in February, but the pace of change will continue. As I said in November 2005 when we outlined the transformation strategy, we are on a 5-year journey – and we have a way to go yet.