

9 October 2006

Office of the Company Secretary

The Manager

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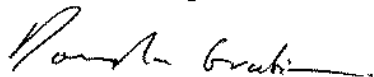
ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra 3 – New Zealand Investment Statement

In accordance with the listing rules, I attach a document for release to the market.

Yours sincerely

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

Douglas Gration
Company Secretary



TELSTRA 3
SHARE OFFER

INVESTMENT STATEMENT



IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.)
Investment decisions are very important. They often have long-term consequences.
Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an Investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the Prospectus (which is an Australian prospectus). That Prospectus accompanies this Investment Statement.

Choosing an Investment Adviser

You have the right to request from any investment adviser a written disclosure statement stating his or her experience and qualifications to give advice. That document will tell you:

- Whether the adviser gives advice only about particular types of investments;
- Whether the advice is limited to the investments offered by 1 or more particular financial organisations; and
- Whether the adviser will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment adviser commits an offence if he or she does not provide you with a written disclosure statement within 5 working days of your request. You must make the request at the time the advice is given or within 1 month of receiving the advice.

In addition:

- If an investment adviser has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing; and
- If an investment adviser receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes.

Important Notices

This is an Investment Statement for the purposes of the Securities Act 1978 and the Securities Regulations 1981. It has been prepared to comply with the requirements of the Securities Act (Australian issuers) Exemption Notice 2002 and the Securities Act (Telstra 3 Share Offer) Exemption Notice 2006 (promulgated under the Securities Act 1978).

The purpose of this Investment Statement is to:

- provide certain key information that is likely to assist you as a prudent but non-expert investor to decide whether or not to acquire shares in Telstra Corporation Limited under the Offer; and
- bring to the attention of such a person the fact that other important information about the shares and terms of the Offer are available in other documents including the Prospectus.

This Investment Statement does not constitute an offer or invitation in any place where, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the instalment receipts, the shares or the Offer, or to otherwise permit a public offering of these securities, in any jurisdiction outside Australia, New Zealand and Japan. The distribution of this Investment Statement outside New Zealand may be restricted by law and persons who come into possession of this Investment Statement outside

New Zealand should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Neither the instalment receipts nor the underlying shares have, and will be, registered under the US Securities Act and those securities may not be offered or sold in the United States or for the account or benefit of US persons except to QIBs in transactions exempt from the registration requirements of the US Securities Act in accordance with Rule 144A and applicable US state securities laws.

The Commonwealth reserves the right not to proceed with the Offer at any time before the acceptance of applications to purchase the shares, in which case all application monies will be returned to applicants without interest.

References to 'Prospectus' throughout this Investment Statement are references to the prospectus that accompanies this Investment Statement, being an Australian prospectus dated 9 October 2006 and lodged with ASIC pursuant to Australian law on that date. They are not references to a prospectus registered in New Zealand under the Securities Act 1978.

Additional copies of this Investment Statement (accompanied by the Prospectus) may be obtained by telephoning the Telstra Telephone Information Centre on 0800 699 013*, or by contacting any NZX Firm.

This Investment Statement (accompanied by the Prospectus) is available in electronic form by accessing the Telstra 3 Share Offer website or www.t3shareoffer.com.au. The Offer constituted by this Investment Statement in electronic form is available only to persons receiving this Investment Statement in electronic form in New Zealand. Persons having received a copy of this Investment Statement in its electronic form may, during the period of the Offer, obtain a paper copy of the Investment Statement (free of charge) by calling the Telstra Telephone Information Centre on 0800 699 013* in New Zealand. Applications for shares may only be made on the application form attached to or accompanying a paper form of this Investment Statement. You cannot download an application form from www.t3shareoffer.com.au.

If any significant developments occur during the course of the Offer, the Commonwealth and Telstra may advise investors of those developments by publishing advertisements in newspapers and on the website set up for the Offer (www.t3shareoffer.com.au) pursuant to an exemption granted by the Securities Commission under the Securities Act 1978.

Certain capitalised terms used in this Investment Statement have defined meanings. These definitions are presented in a 'Definitions' section at the end of this Investment Statement.

This Investment Statement is dated 9 October 2006.

Forward looking information: cautionary statement

Some of the information contained in this Investment Statement may constitute forward-looking statements that are subject to various risks and uncertainties. These statements can be identified by the use of forward-looking terminology such as 'may', 'will', 'expect', 'anticipate', 'estimate', 'revenue', 'plan', 'intend', 'believe', 'objectives', 'outlook', 'guidance' or other similar words, including statements relating to Telstra's strategic management objectives in section 3.4 of the Prospectus, 'Transformation strategy' and outlook for financial year 2007 in section 3.5 of the Prospectus, 'Outlook'. These statements discuss future expectations or objectives concerning results of operations or of financial condition or provide other forward-looking information. Telstra's actual results, performance or achievements could be significantly different from the results or objectives expressed in, or implied by, those forward-looking statements. This Investment Statement and the Prospectus detail some important factors that could cause Telstra's actual results to differ materially from the forward-looking statements made in this Investment Statement or the Prospectus. Given the risks, uncertainties and other factors, you should not place undue reliance on any forward-looking statement, which speaks only as of the date of this Investment Statement.

All enquiries in relation to this Investment Statement and how to participate in the Offer should be directed to the Telstra 3 Share Offer website www.t3shareoffer.com.au or the Telstra Telephone Information Centre on 0800 699 013*.

* A free call from most fixed phones. Calls made from a mobile phone are subject to additional charges from your mobile phone service provider.



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Important dates for New Zealand investors

Investment Statement and Prospectus date	Monday 9 October 2006
Record Date for Shareholder Entitlement Offer	Friday 13 October 2006
Retail Offer opens	Monday 23 October 2006
Retail Offer closes	4.00pm (New Zealand time) Thursday 9 November 2006
Institutional Offer opens	Wednesday 15 November 2006
Institutional Offer closes	Friday 17 November 2006
Final instalment amount and basis of allocation announced by	Monday 20 November 2006
Conditional and deferred settlement trading of instalment receipts expected to commence on NZSX and ASX	Monday 20 November 2006
Institutional Offer settlement	Friday 24 November 2006
Normal trading of instalment receipts expected to commence on NZSX	Monday 27 November 2006
Instalment receipt transaction confirmation statements expected to be dispatched by	Thursday 30 November 2006
Normal settlement trading of instalment receipts expected to commence on ASX	Friday 1 December 2006
Last date for payment of the final instalment (Final Instalment Due Date)	Thursday 29 May 2008

If you wish to apply for shares you are encouraged to do so as soon as possible. The Commonwealth has the right to change these dates, other than the Final Instalment Due Date, including closing early or extending the Offer, or any component of the Offer, without prior notice, or otherwise vary the terms of the Offer, either generally or in particular cases.

Enquiries

If you have any questions about the Offer in New Zealand you should call the Telstra 3 Telephone Information Centre on 0800 699 019, visit the Telstra 3 Share Offer website at www.t3shareoffer.com.au or contact any NZX Firm.

You should read this Investment Statement and the Prospectus carefully before deciding to invest. If you wish to apply for shares you must complete, sign and lodge an application form which is attached to or accompanies this Investment Statement. Detailed instructions on how to apply are set out in the following table.

1. How to apply

Who can Apply in the Retail Offer?		How many shares can I apply for?	Will I be allocated all the shares that I apply for if the offer is over-subscribed?
This component of the Retail Offer...	Is open to...		
Shareholder Entitlement Offer	New Zealand resident Retail Investors who are registered Telstra shareholders on the Record Date ¹	- Your shareholder entitlement is calculated on the basis of 1 Telstra share for every 2 Telstra shares which are registered in your name on the Record Date¹. Shareholder entitlements include a minimum guaranteed entitlement of 3,000 shares and are subject to a maximum guaranteed entitlement of 200,000 shares - Your shareholder entitlement is shown on your purple application form¹ - Your entitlement will be rounded up to the nearest 50 shares - You may apply for more or less shares than your entitlement - The minimum number of shares you may apply for is 500, and thereafter in multiples of 50	- If you apply for the shareholder entitlement on your purple personalised application form your application will be accepted in full and will not be scaled back - If you apply for more than your shareholder entitlement you will be allocated an amount equal to at least your shareholder entitlement if applications need to be scaled back - If you apply for less than your shareholder entitlement you will be allocated the number of shares for which you apply and will not be scaled back
Firm Offer	New Zealand resident Retail Investors who are offered a firm allocation by their participating broker	- Your participating broker will inform you of your firm allocation - The minimum number of shares you may apply for is 500, and thereafter in multiples of 50	Firm Offer applications will be accepted in full and will not be scaled back
General Public Offer	New Zealand resident Retail Investors who are not Telstra shareholders at the Record Date	- You are guaranteed a minimum allocation of 2,000 shares - You may apply for more or less shares than your guaranteed allocation - The minimum number of shares you may apply for is 500, and thereafter in multiples of 50 - Applications can be for up to a maximum of 200,000 shares	- If you apply for the guaranteed allocation of 2,000 shares your application will be accepted in full and will not be scaled back - If you apply for more than your guaranteed allocation you will be allocated an amount equal to at least 2,000 if applications need to be scaled back - If you apply for less than the guaranteed allocation, you will be allocated the number of shares for which you apply

¹ The Record Date is 13 October 2006. If your Telstra shareholding changed between Friday 15 September 2006 and Friday 13 October 2006, then you may have a different shareholder entitlement than that shown on the purple application form sent to you. If your shareholder entitlement has increased during this period a new purple application form will be sent to you. You should apply using this new form. If your shareholder entitlement has decreased during this period then you should use the original purple application form sent to you, although the Commonwealth reserves the right to scale back your application if you apply for more shares than your actual shareholder entitlement.

Which form should I use?

How do I pay?

Can I apply online?

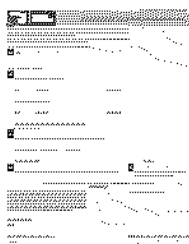


- You should have received a purple personalised application form with this Investment Statement. You should use this form and return it using the enclosed reply-paid envelope
- Applications for the Shareholder Entitlement Offer must be made on this purple form
- If you were a registered Telstra shareholder at the Record Date but did not receive a purple application form, you should contact the Telstra 3 Telephone Information Centre on 0800 699 019

- You must pay in Australian dollars, by cheque or bank draft

- No, you cannot apply online

- You should apply in accordance with instructions received from the broker from whom you received your firm allocation



- Two yellow application forms are included with this Investment Statement. You should apply using one of these yellow forms and return it using the enclosed reply-paid envelope

- You must pay in Australian dollars, by cheque or bank draft

- No, you cannot apply online

2. The Telstra 3 Share Offer

Description of the Offer

The Offer is an offer by the Commonwealth of Telstra shares to be paid in two instalments and comprises:

- * A Retail Offer which consists of the:
 - Shareholder Entitlement Offer – a 1 for 2 entitlement offer open to Australian and New Zealand resident Retail Investors who are registered Telstra shareholders at the close of business on 13 October 2006 (Record Date);
 - Firm Offer – open to Australian and New Zealand resident Retail Investors who are offered a firm allocation of shares by their participating broker or, where relevant, financial planner; and
 - General Public Offer – open to Australian and New Zealand resident Retail Investors.
- * An Institutional Offer which consists of an invitation to:
 - Institutional Investors in Australia, New Zealand, the United States and certain other overseas jurisdictions who are Telstra shareholders to bid for shares in the Institutional Offer and receive an Initial Allocation Benefit of 1 share for every 2 shares held at the close of the Institutional Offer (adjusted for dealings up to that time) if they bid at or above the final price;
 - other Institutional Investors in Australia, New Zealand, the United States and certain other overseas jurisdictions to bid for shares in the Institutional Offer. A minimum of 15% of the offer size will be reserved for, amongst others, these Institutional Investors (Certain Institutional Investors) if they bid at or above the final price; and
 - Japanese investors to subscribe for shares via a Public Offer Without Listing (POWL). A minimum total number of shares may be reserved for these Japanese investors (the POWL Minimum Guarantee).

The base offer size is 2.15 billion shares, unless increased as outlined below. The final number of shares sold by the Commonwealth will not exceed this base offer size unless:

- * the Over-allocation Option is exercised; and/or
- * the number of shares required to satisfy allocations for the Retail Offer, the POWL Minimum Guarantee and Institutional Investors' Initial Allocation Benefits exceeds 2.15 billion shares.

The Joint Global Coordinators may agree with the Commonwealth to over-allocate up to 15% of the base offer size (that is, 322.50 million shares¹) to Institutional Investors under the Institutional Offer. These over-allocations, if any, may be satisfied either by acquiring additional instalment receipts from the Commonwealth pursuant to an option which has been granted by the Commonwealth (the Over-allocation Option) and/or by purchasing instalment receipts on the stock market which may have the effect of stabilising the secondary market price of instalment receipts. The full exercise of the Over-allocation Option would increase the number of shares sold by the Commonwealth to 2.47 billion shares¹. In addition, the base offer size may be increased where the number of shares required to satisfy allocations for the Retail Offer, the POWL Minimum Guarantee and Institutional Investors' Initial Allocation Benefits exceeds 2.15 billion shares. In this event, the size of the Over-allocation Option would also increase proportionately, to remain at 15% of the increased base offer size. Further information about the Over-allocation Option is set out in section 5.12 of the Prospectus, 'Over-allocation and market stabilisation'.

Instalment receipts

Telstra shares purchased in the Offer will be paid for in two instalments. An instalment receipt is evidence of your beneficial interest in a Telstra share. Until you pay the final instalment, your shares will be held by the Trustee and the Commonwealth will have a security interest in your shares.

While you hold instalment receipts, you will be entitled to vote (by directing the Trustee how to vote) at a meeting of Telstra shareholders (or class of shareholders) and will receive any dividends declared by Telstra during this period. In its normal cycle, Telstra pays an interim dividend in March or April and a final dividend in September or October of each year. For further information see section 3.5 of this Investment Statement, 'What returns will I get?'.

After you pay the final instalment, you will be registered as the holder of the underlying shares, your instalment receipts will be cancelled and you will be able to freely trade the shares.

You may create a security interest over your instalment receipts. However, you cannot create any security interest which is capable of extending to the underlying shares until you have paid the final instalment.

¹ Assuming a base offer size of 2.15 billion shares.

You should note that the partial payment characteristics of instalment receipts may make percentage price movements in them greater than percentage price movements if they were fully paid shares in similar circumstances.

Further details on the instalment receipts, including conditional and deferred settlement trading and selling of the securities, are set out in section 3.1 of this Investment Statement, 'What sort of investment is this?', and section 3.8 of this Investment Statement, 'How do I cash in my investment?'.

Retail Offer price and payment

This information relates to New Zealand resident Retail Investors only.

The shares will be paid for in two instalments.

THE FIRST INSTALMENT

The first instalment amount is A\$2.10 per share.

The first instalment is payable at the time you submit your application for shares. Your application and payment for the first instalment must be received by 4.00pm local time on the Closing Date (expected to be on 9 November 2006).

New Zealand resident Retail Investors will pay the same first instalment amount as Institutional Investors.

THE FINAL INSTALMENT

The amount of the final instalment will be decided at the close of the Offer based on the final instalment amount payable by Institutional Investors under the Institutional Offer. That amount will be determined by the Commonwealth in consultation with the Joint Global Coordinators and the Commonwealth's Business Adviser by reference to a bookbuild. Further information regarding the Institutional Offer is set out in section 3.3 of this Investment Statement, 'How much do I pay?'.

A registered holder of instalment receipts on 15 May 2008 must pay the final instalment on or by 29 May 2008 (Final Instalment Due Date). Reminder notices will be sent to instalment receipt holders prior to this date.

If the final instalment is not paid by the Final Instalment Due Date, the Trustee can sell some or all of your shares. If the net proceeds of such sale are insufficient to satisfy the final instalment (and any other related amounts you may owe to the Commonwealth, including interest, costs, expenses, administration charges, duties and taxes), the Trustee can take action to recover the deficiency. Further information is set out in section 3.4 of this Investment Statement, 'What are the charges?'. If the net proceeds of such sale are sufficient to satisfy the final instalment (and any other related amounts you may owe to the Commonwealth, including interest, costs, expenses, administration charges, duties and taxes), the Trustee will refund any excess proceeds to you.

Instalment receipt holders may prepay the final instalment for some (in minimum parcels of 2,000) or all of their registered holding on or before 31 March 2008.

You should be aware that at the time of payment of the final instalment, the market price of Telstra shares may be less than the total of the first and final instalment amounts.

New Zealand resident investors will not be eligible for any 'bonus loyalty share' or 'prepayment discount' as referred to in the Prospectus.

Further information is set out in section 3.1 of this Investment Statement, 'What sort of investment is this?'.

Your Application

Application forms must be completed and submitted in accordance with the instructions set out on the reverse of the form and in accordance with the information in the section headed 'Application Instructions'.

Applications must be for a minimum of 500 shares and in multiples of 50 shares thereafter. If the Offer is over-subscribed, you may be allocated less than the number of shares for which you apply, subject to your minimum guaranteed allocation, shareholder entitlement or firm allocation.

SHAREHOLDER ENTITLEMENT OFFER AND GENERAL PUBLIC OFFER

Applications and payments must be received by 4.00pm New Zealand time on the Closing Date, expected to be 9 November 2006. However, the Commonwealth, in consultation with the Joint Global Coordinators, may, without further notice, close the Offer (or any part of the Offer) early, extend the Offer (or any part of the Offer) or accept late applications, either generally or in particular cases.

2. The Telstra 3 Share Offer (continued)

FIRM OFFER

If you elect to participate in the Firm Offer, your broker will act as your agent in submitting your application and it will be your broker's responsibility to ensure that the applications are received by 4.00pm local time on the Closing Date (expected to be 9 November 2006). The Commonwealth and the Joint Global Coordinators take no responsibility for any acts or omissions by your broker in connection with your application.

ACCEPTANCE OF APPLICATIONS

The Commonwealth intends to accept all valid applications under the Retail Offer for at least the relevant guaranteed allocation. The Commonwealth reserves the right, however, to reject any application or to allocate to any person fewer shares than applied for by that person.

You will receive a refund if you have applied and paid for more shares than you are allocated. Telstra shareholders who have already provided their bank or other financial institution account details will receive any refund electronically into that account. All other applicants will receive any refund by cheque. No interest will be paid to you on any monies refunded.

Further information about lodging and acceptances of applications is set out in the section headed 'Application Instructions'.

Allocations

A proportion of the shares to be sold in the Offer will be reserved for the entitlements, firm allocations and guaranteed minimum allocations under the Shareholder Entitlement Offer, the Firm Offer and the General Public Offer respectively, any POWL Minimum Guarantee and institutional investors' Initial Allocation Benefit.

Any reserved shares not allocated to these components of the Offer will be allocated to satisfy applications from Retail Investors above their guaranteed minimum allocations and entitlements as well as to satisfy bids in the Institutional Offer.

Details of each component of the Retail Offer are described in section 1 of this Investment Statement, 'How to Apply'.

The Commonwealth will determine the allocation of shares between bidders in the Institutional Offer after consultation with the Joint Global Coordinators and the Commonwealth's Business Adviser. There is no assurance that any bidder in the Institutional Offer will be allocated any shares or the number of shares for which it has lodged a bid. The determination of the total amount per share payable by Institutional Investors and the allocation policy will be in accordance with the terms of the Institutional Offer set out in section 5 of the Prospectus Appendix, 'Further information about the Institutional Offer', which is available on request. Also see section 3.11 of this Investment Statement, 'What other information can I obtain about this investment?'.

The Commonwealth intends that the majority of shares to be sold under the Institutional Offer be made available to existing Telstra shareholders in the form of the Initial Allocation Benefit. Further information is set out in section 3.3 of this Investment Statement, 'How much do I pay?'.

Listing and quotation

Telstra securities are currently traded on ASX, NZSX and NYSE. Telstra is listed on NZSX as an overseas listed issuer. Telstra and the Trustee will apply within seven days after the date of issue of the Prospectus to have the instalment receipts and underlying shares quoted on ASX. Telstra and the Trustee have applied to NZX for permission to quote the instalment receipts and underlying shares on NZSX and all requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement.

Quotation of the instalment receipts and underlying shares on NZSX is conditional upon quotation on ASX.

The instalment receipts and underlying shares will not be quoted on NYSE.

Until settlement under the International Purchase Agreement occurs and the instalment receipts are issued, trading in instalment receipts on NZSX and ASX will be on a conditional basis. Conditional trading in instalment receipts on NZSX and ASX is expected to commence on 20 November 2006.

If permission for quotation of the instalment receipts and underlying shares is not granted by ASX within three months after the date of the Prospectus, or such longer period as ASX allows, application monies will be refunded in full without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Further information is set out in section 3.1 of this Investment Statement, 'What sort of investment is this?' and in section 9 of the Prospectus Appendix, 'Quotation application and agreement between the Trustee and ASX'.

Future Fund

The Future Fund is a Commonwealth investment fund set up to strengthen the Commonwealth's long-term finances by providing for its unfunded superannuation liabilities. The Future Fund Board is responsible for investment decisions and holds the Future Fund's investments (for and on behalf of the Commonwealth). The Future Fund Board is a separate legal entity from the Commonwealth.

After the Offer, the Commonwealth intends to transfer to the Future Fund all of its Telstra shares which are not transferred in the Offer (including the Over-allocation Option and associated administrative mechanisms), although it will initially retain sufficient shares to meet bonus loyalty share obligations to Australian applicants in the Retail Offer. These retained shares will be held for the Commonwealth by the Trustee until they are transferred to those entitled, and will not be voted while they are so held. Any of these shares which are not ultimately required, because Australian instalment receipt holders have transferred instalment receipts or otherwise lost the right to receive bonus loyalty shares, will be transferred to the Future Fund after the Final Instalment Due Date.

Telstra shares transferred to the Future Fund cannot be sold during an escrow period of two years from the date instalment receipts are first listed on ASX, subject to limited exceptions described in section 2.8 of the Prospectus, 'Future Fund overview', and section 5.7 of the Prospectus, 'Future Fund'.

Telstra shares are not guaranteed by the Future Fund.

For further information regarding the Commonwealth's transfer of shares to the Future Fund see section 2.8 of the Prospectus, 'Future Fund overview', and section 5.7 of the Prospectus, 'Future Fund'.

3. Answers to important questions

3.1 What sort of investment is this?

The following is a summary only and should be read in conjunction with the additional detailed information contained elsewhere in this Investment Statement and in the Prospectus.

The base offer size is 2.15 billion shares, unless increased as outlined below. The final number of shares sold by the Commonwealth will not exceed this base offer size unless:

- the Over-allocation Option is exercised; and/or
- the number of shares required to satisfy allocations for the Retail Offer, the POWL Minimum Guarantee and Institutional Investors' Initial Allocation Benefits. For further information see section 3.3 of this Investment Statement, 'Ability to increase the offer size'.

INSTALMENT RECEIPTS

Telstra shares will be paid for in two instalments. The first instalment amount of A\$2.10 is payable on application and the final instalment is payable on or by 29 May 2008. Until the final instalment is paid, the shares will be held by the Trustee pursuant to the Trust Deed.

Instalment receipts will evidence an instalment receipt holder's beneficial interest in underlying shares. However, the shares themselves will be held by the Trustee in accordance with the Trust Deed. The Trustee will hold the shares on trust for instalment receipt holders as the owner of the beneficial interest and for the Commonwealth as the holder of a security interest securing payment, among other things, of the final instalment. After an instalment receipt holder pays the final instalment by the Final Instalment Due Date in cleared funds, the instalment receipts will be cancelled and the Trustee will transfer the underlying shares to that instalment receipt holder who will become the registered holder of the shares. The Commonwealth will no longer have a security interest in them.

Instalment receipt holders will be entitled to receive any dividends paid on the shares, to receive notices, financial reports and other documents required to be sent to shareholders and to vote (by directing the Trustee how to vote) at a meeting of shareholders (or class of shareholders).

Instalment receipt holders will not be registered shareholders of Telstra in terms of the Corporations Act nor Telstra's constitution.

INSTALMENT RECEIPT VOTING RIGHTS

Holders of instalment receipts generally have equivalent rights to those of shareholders including the right to attend and speak at a general meeting of Telstra shareholders. Holders of instalment receipts cannot vote directly at a general meeting of Telstra shareholders but can direct the Trustee how to vote the shares underlying the instalment receipts.

The Trustee will direct the Instalment Receipt and Share Registrar to make arrangements with Telstra and the share registrar to ensure that, so far as practicable, the share registrar sends to the instalment receipt holder any notice of meeting of shareholders at the same time and in the same manner it sends that notice to shareholders. However, because of the timing of the Offer, applicants under the Offer will not receive a notice of meeting and will not have the right to attend and vote at the annual general meeting on 14 November 2006, unless they are existing shareholders.

As an instalment receipt holder is not strictly a shareholder, the Trust Deed sets out a procedure that the Trustee must follow to ensure that a holder of instalment receipts may direct the votes attached to the underlying shares at a general meeting. That procedure is summarised in section 11 of the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

If an instalment receipt holder does not provide a valid voting direction, the Trustee must not cast a vote on any resolution in respect of the underlying shares to which that instalment receipt holder's instalment receipts relate.

DIVIDENDS

While you hold instalment receipts, you will be entitled to vote (by directing the Trustee how to vote) at a meeting of Telstra shareholders (or a class of shareholders) and will receive any dividends declared by Telstra during this period. In its normal cycle, Telstra pays an interim dividend in March or April and a final dividend in September or October of each year. Neither Telstra nor any other party promises or guarantees that dividends will be paid on Telstra shares.

The Trustee will take all reasonable steps (as defined in the Trust Deed) to require that the payment of any dividend to the instalment receipt holder is made at the same time and in the same manner as Telstra pays dividends to shareholders. Payments will be made to an instalment receipt holder if that holder is on the instalment receipt register at the relevant time. The Trustee is not responsible to the instalment receipt holder for any neglect or default on Telstra's part in relation to dividends.

Further information about dividends is set out in section 3.5 of this Investment Statement, 'What returns will I get?'.

INSTALMENT RECEIPTS ARE TRANSFERABLE

Some or all of a holding of instalment receipts may be transferred to another person, subject to the terms of the Trust Deed. Telstra and the Trustee will apply within seven days after the date of issue of the Prospectus to have the instalment receipts and underlying shares quoted on ASX. Telstra and the Trustee have applied to NZX for permission to quote the instalment receipts and underlying shares on NZSX, and all requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement.

See section 3.8 of this Investment Statement, 'How do I cash in my investment?', in relation to the trading of the shares represented by the instalment receipts after that date.

THE INSTALMENT RECEIPT REGISTER

The instalment receipt register is the only evidence of a holding of an instalment receipt and of the beneficial interest in the share underlying an instalment receipt. The instalment receipt register will be maintained by the Instalment Receipt and Share Registrar. A copy of the instalment receipt register may be inspected or obtained (for a fee, in some cases) if an undertaking is provided regarding the use of the information obtained in inspecting, or obtaining a copy of, that register.

The Instalment Receipt and Share Registrar in New Zealand is Link Market Services Limited which is also Telstra's share registrar in New Zealand.

Further information about the instalment receipt register is set out in section 11 of the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

OBLIGATION TO PAY THE FINAL INSTALMENT

A registered holder of instalment receipts on 15 May 2008 must pay the final instalment on or by 29 May 2008 (the Final Instalment Due Date). Reminder Notices will be sent to instalment receipt holders prior to this date. The reminder notice will be sent to the address recorded against the name in the instalment receipt register.

So that the Commonwealth can determine who must pay the final instalment, Telstra will ask ASX and NZX to suspend trading of the instalment receipts on or about 9 May 2008. The person on the instalment receipt register at the later of 7.00pm (Sydney) time, and the time at which various scheduled processing and system administration tasks are completed in respect of 15 May 2008, will have to pay the final instalment. This is so even if the reminder notice is not received.

If an instalment receipt holder defaults in paying the final instalment, the Trustee may sell some or all of the shares (including all dividends, rights or other benefits accruing or received on the shares after 29 May 2008) underlying the holder's instalment receipts to satisfy the final instalment (and any other related amounts the instalment receipt holder may owe to the Commonwealth, including interest on the amount of the final instalment (calculated at 12% per annum) and administration charges (including a A\$75 administration fee per default), costs, expenses, taxes and duties).

The instalment receipt holder will receive any excess proceeds. If the proceeds of the sale of the shares are insufficient to cover the above amounts, the instalment receipt holder remains liable for the shortfall. The Trustee must take action against the instalment receipt holder to recover the shortfall unless the Commonwealth instructs it to cease that action. The Commonwealth can also take recovery action against the instalment receipt holder directly.

New Zealand resident investors will not be entitled to the 'bonus loyalty shares' on the final instalment, as referred to in the Prospectus, and must pay the full amount of the final instalment by the Final Instalment Due Date.

PRE-PAYMENT OPTION

Instalment receipt holders may prepay the final instalment for some (in minimum parcels of 2,000) or all of their registered holding on or before 31 March 2008. Prepayment may be made on or by 28 February 2007 and on or by the last day of every month thereafter (each a prepayment day) up until 31 March 2008. To prepay, instalment receipt holders will need to contact the Instalment Receipt and Share Registrar on 0800 835 7872 to obtain the prepayment notification. Instalment receipt holders need to request a prepayment notification by the eighth business day of a month if they want to prepay in that month. They will then need to lodge their payment with the Commonwealth as directed in the prepayment notification by 5.00pm (Sydney time) on the last business day of the relevant month.

For further information about prepayments see section 11 of the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

3. Answers to important questions (continued)

OTHER TERMS

The Trust Deed has provisions which deal with the duties of the Trustee if:

- * a takeover bid is made for Telstra;
- * a takeover bid is made for instalment receipts;
- * Telstra subdivides, consolidates or reconstructs the Telstra shares;
- * Telstra reduces its capital. If a return of capital occurs, the Commonwealth will receive the return and the final instalment will be reduced accordingly;
- * Telstra makes a buy-back offer for shares; or
- * Telstra makes a bonus issue or Telstra shareholders receive rights under a scheme of arrangement.

The instalment receipt holder cannot create any security interest, such as a mortgage or a charge, over the shares the Trustee is holding on such holder's behalf. In addition, the instalment receipt holder cannot do anything which would have the effect of giving another person any right over the shares until the final instalment has been paid and the Trustee has transferred the shares to the holder.

Instalment receipt holders are required by the Trust Deed to pay certain taxes and duties, if any, referable to them, their instalment receipts or their shares.

Further details of the other terms of the Trust Deed are summarised in section 11 of the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

SHARES

The shares offered are ordinary shares of Telstra, an Australian company.

Rights attaching to the shares are conferred by Telstra's constitution and regulated by the Corporations Act, ASX Listing Rules and general law. These rights include the right to:

- * attend and vote at a meeting of shareholders, including the right to cast one vote per share on a poll;
- * an equal participation with other shares in any dividend declared, subject to any rights attaching to any shares with special dividends (no such shares are currently on issue);
- * an equal participation with other shares in the residual assets on liquidation of Telstra after payments to creditors, subject to rights attaching to any preference shares (no such shares are currently on issue); and
- * be sent reports, notices of meetings and other information sent to shareholders.

Further details on the rights and obligations of shareholders are set out in Telstra's constitution. Telstra proposes to replace its constitution at the upcoming 2006 annual general meeting to be held on 14 November 2006. The proposed new constitution will, among other things, reflect changes arising from the Offer, regulatory changes under the Corporations Act and the ASX Listing Rules and developments in best practice corporate governance.

Some of the principal amendments proposed to be made to Telstra's constitution are summarised in section 10 of the Prospectus Appendix 'Description of shares and constitution'.

QUOTATION

Telstra securities are currently traded on ASX, NZSX and NYSE. Telstra is listed on NZSX as an overseas listed issuer.

Telstra and the Trustee have applied to NZX for permission to quote the instalment receipts and underlying shares on NZSX and all requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with.

Telstra and the Trustee will apply within seven days after the date of issue of the Prospectus to have the instalment receipts and underlying shares quoted on ASX. The instalment receipts and shares will not be quoted on NYSE.

NZX and ASX accept no responsibility for any statement in this Investment Statement.

If permission for quotation of the instalment receipts and underlying shares is not granted by ASX within three months after the date of the Prospectus, or such longer period as ASX allows, application monies will be refunded in full without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Initial quotation of the instalment receipts on NZSX and ASX is expected to occur on Monday 20 November 2006 on a conditional and deferred settlement basis.

Investors should note that quotation of the instalment receipts on NZSX is conditional upon quotation of the instalment receipts and shares on ASX, settlement of the International Purchase Agreement and the issue of the instalment receipts.

OTHER INFORMATION ABOUT THE SECURITIES

Further details on the rights and obligations of instalment receipt holders and shareholders are set out in the Trust Deed and Telstra's constitution and are summarised in section 5.9 of the Prospectus, 'Rights of holders of instalment receipts and shareholders' and section 11 of the Prospectus Appendix, 'Description of the Instalment Receipts and Trust Deed'.

3.2 Who is involved in providing it for me?

OFFEROR AND PROMOTER

The Commonwealth of Australia is the offeror and promoter of the shares being offered for sale. Under the Securities Act, the Commonwealth is also an issuer of the shares and has obligations as an issuer under the Securities Act and Securities Regulations.

The address of the Commonwealth is Department of Finance and Administration, John Gorton Building, King Edward Terrace, Parkes, ACT 2600, Australia.

An investment in the shares is not guaranteed by the Commonwealth or any other party.

ISSUER

Telstra Corporation Limited (ACN 051 775 556) is the original issuer of the shares.

Telstra was incorporated on 6 November 1991 in Australia Capital Territory, Australia. Telstra's registered office is Level 41, 242 Exhibition Street, Melbourne, VIC 3000, Australia.

Telstra's principal place of business in New Zealand is located at two sites, being TelstraClear Centre, Smales Farm Office Park, Corner Northcote and Taharoto Road, Takapuna, Auckland and TelstraClear Limited, Shed 39, 1 Hinemoa Street, Centreport, Wellington (Telephone 0508 888 800).

Telstra is a listed company and its shares are quoted on ASX and NZSX.

Telstra is Australia's leading telecommunications and information services company. The principal activities of Telstra include the provision of basic access services (including installation and maintenance of connections between customers' premises and basic voice; facsimile and internet services) to most homes and businesses in Australia; local and long distance telephone calls in Australia and international telephone calls to and from Australia; mobile telecommunications services, broadband access and content, a comprehensive range of data and

internet services (including through Telstra BigPond®, Australia's leading internet service provider (ISP)); management of business customers' information technology and/or telecommunications services; wholesale services to other carriers, carriage service providers (CSPs) and ISPs; advertising, search and information services through its wholly-owned subsidiary, Sensis; and cable distribution services for FOXTEL's cable subscription television services.

Telstra owns 50% of FOXTEL and its international business includes interests in: CSL New World Mobility Group (CSL), Hong Kong's leading mobile operator; TelstraClear Limited, the second largest full service carrier in New Zealand; REACH Ltd (REACH), a provider of global connectivity and international voice and satellite services; and SouFun Holdings Limited (SouFun), a leading real estate and home furnishings website in China.

Further details of Telstra's main activities and international investments are set out in section 3.8 of the Prospectus, 'Telstra's main activities and international investments'.

Telstra will not receive any proceeds from the sale of the shares.

The current members of the Board are listed in the corporate directory on page 39 of this Investment Statement. Further information about the directors of Telstra is set out in section 3.6 of this Investment Statement, 'What are my risks?'.

For further information about Telstra refer to section 3 of the Prospectus, 'Overview of Telstra'.

TRUSTEE

The Trustee is Telstra Sale Company Limited (ABN 82 121 986 187).

3.3 How much do I pay?

Payment for the shares will be in two instalments. Successful applicants must pay:

- the first instalment amount of A\$2.10 per share on application; and
- the final instalment amount on or by 29 May 2008, the Final Instalment Due Date.

The final price payable for a share will be the amount set under the Institutional Offer. The amount of the final instalment will be equal to the final price less the amount of the first instalment. The final instalment amount will be announced by Monday 20 November 2006.

You should be aware that at the time of payment of the final instalment, the market price of the Telstra shares may be less than the total of the first and final instalment amount.

3. Answers to important questions (continued)

FINAL INSTALMENT

Each person registered as an instalment receipt holder at 7.00pm (Sydney time) on the 15 May 2008 and the time at which various scheduled processing and system administration tasks are completed in respect of 15 May 2008, will have to pay the final instalment.

If the final instalment is paid by 5.00pm Sydney time on 29 May 2008 and the payment is cleared by 5.00pm Sydney time on 10 June 2008, the Trustee will transfer the shares to the instalment receipt holder within 12 business days (or a longer period if ASX and NZX permits) of 29 May 2008.

If funds sent to pay for the final instalment are not cleared by 5.00pm Sydney time on 10 June 2008, the Trustee will transfer the shares to the instalment receipt holder as soon as practicable after those funds are cleared.

Investors who buy or sell instalment receipts in the period immediately preceding the Final Instalment Due Date should confirm with an NZX Firm whether they will be liable to pay the final instalment on those instalment receipts.

Instalment receipt holders may prepay the final instalment for some (in minimum parcels of 2,000) or all of their registered holding on or before 31 March 2008. Prepayment may be made on or by 28 February 2007 and on or by the last day of every month thereafter (each a prepayment day) up until 31 March 2008. To prepay, instalment receipt holders will need to contact the Instalment Receipt and Share Registrar on 0800 835 7872 to obtain the prepayment notification. Instalment receipt holders need to request a prepayment notification by the eighth business day of a month if they want to prepay in that month. They will then need to lodge their payment with the Commonwealth as directed in the prepayment notification by 5.00pm Sydney time on the last business day of the relevant month.

For further information about prepayments see section 11 of the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

New Zealand resident investors will not be eligible for any prepayment discount as referred to in the Prospectus.

CONSEQUENCES OF FAILING TO PAY THE FINAL INSTALMENT

If an instalment receipt holder defaults in paying the final instalment, the Trustee can sell some or all of the shares (including all dividends, rights or other benefits accruing or received on the shares after 29 May 2008) underlying the holder's instalment receipts to satisfy the final instalment (and any other related amounts the instalment receipt holder may owe to the Commonwealth, including interest on the

amount of the final instalment (calculated at 12% per annum) and administration charges (including a A\$75 administration fee per default), costs, expenses, taxes and duties).

DETERMINATION OF THE FINAL PRICE – INSTITUTIONAL OFFER

Selected Institutional Investors will be invited to bid for shares in the Institutional Offer. Participants in the Institutional Offer will be invited to submit bids between 15 and 17 November 2006 in a global bookbuild process. After the close of the Institutional Offer, the total amount payable per share by Institutional Investors will be determined by the Commonwealth in consultation with the Joint Global Coordinators and the Commonwealth's Business Adviser. In determining the total amount payable per share by Institutional Investors, the Commonwealth will have regard to considerations including the level of demand for shares in the bookbuild, prevailing market conditions, the desire for an orderly after-market, the market price of Telstra shares prior to the close of the Institutional Offer and an ownership base of long-term shareholders.

The final instalment payable by Institutional Investors will be the total amount payable per share less the A\$2.10 first instalment payable by Institutional Investors.

The Commonwealth will determine the allocation of shares between bidders in the Institutional Offer after consultation with the Joint Global Coordinators and the Commonwealth Business Adviser. There is no assurance that any bidder in the Institutional Offer will be allocated any shares or the number of shares for which it has lodged a bid. The determination of the total amount per share payable by Institutional Investors and the allocation policy will be in accordance with the terms of the Institutional Offer set out in section 5 of the Prospectus Appendix, 'Further Information about the Institutional Offer'.

The Commonwealth intends that the majority of shares to be sold under the Institutional Offer be made available to existing Telstra shareholders in the form of the Initial Allocation Benefit. Institutions holding Telstra shares as at 6.00pm Sydney time on 17 November 2006 (adjusted for dealings up to that time – see section 5 of the Prospectus Appendix, 'Further information about the Institutional Offer') that lodge a valid bid no later than that time will receive an Initial Allocation Benefit. The Initial Allocation Benefit is subject to the bidder having made and not withdrawn a valid bid at or above the final price and the Commonwealth reserves the right to withhold the Initial Allocation Benefit from persons it considers have engaged in adverse market behaviour. The level of Initial Allocation Benefit will be 1 share for every 2 shares held in Telstra at the close of the Institutional Offer (adjusted for dealings up to that time) or such lesser number of shares for which the institution has lodged a valid bid at or above the final

price. Australian and New Zealand resident Retail Investors bidding via broker-sponsored bids will also be entitled to claim Initial Allocation Benefits based on their holdings as at the close of the Institutional Offer (adjusted for dealings up to that time – see section 5 of the Prospectus Appendix, 'Further information about the Institutional Offer'), but must deduct from the Initial Allocation Benefit so claimed any shares they have applied for in the Shareholder Entitlement Offer.

A minimum total number of shares may also be reserved for Japanese investors subscribing under the POWL Minimum Guarantee.

In addition, a minimum of 15% of the offer size (before any over-allocation) will be reserved for certain investors in the Institutional Offer ('Certain Institutional Investors'), including:

- Telstra shareholders who place bids for amounts in excess of their Initial Allocation Benefit;
- other Institutional Investors who are not Telstra shareholders at the close of the Institutional Offer;
- investors subscribing under the Japanese POWL in excess of any POWL Minimum Guarantee; and
- Retail Investors who participate in the Institutional Offer via broker-sponsored bids for amounts in excess of their Initial Allocation Benefits (if any).

Any allocation of these reserved shares is subject to the investor having made and not withdrawn a valid bid at or above the final price. These reserved shares will be allocated having regard to the allocation criteria described in section 5 of the Prospectus Appendix, 'Further Information about the Institutional Offer'. Any reserved shares not allocated to these investors will be allocated to other parts of the Offer.

The final instalment amount payable by Institutional Investors will be set by the Commonwealth following a bookbuild.

Further details about the Institutional Offer are set out in section 2.5 of the Prospectus, 'Institutional Offer', and section 5 of the Prospectus Appendix, 'Further information about the Institutional Offer'.

ABILITY TO INCREASE THE OFFER SIZE

The base offer size is 2.15 billion shares, unless increased as outlined below. The final number of shares sold by the Commonwealth will not exceed this base offer size unless:

- the Over-allocation Option is exercised; and/or
- the number of shares required to satisfy allocations for the Retail Offer, the POWL Minimum Guarantee and Institutional investors' Initial Allocation Benefits exceeds 2.15 billion shares.

The Joint Global Coordinators may agree with the Commonwealth to over-allocate up to 15% of the base offer size (that is, 322.50 million

shares¹) to Institutional Investors under the Institutional Offer. These over-allocations, if any, may be satisfied either by acquiring additional instalment receipts from the Commonwealth pursuant to the Over-allocation Option which has been granted by the Commonwealth and/or by purchasing instalment receipts on the stock market which may have the effect of stabilising the secondary market price of instalment receipts. The exercise of the Over-allocation Option would increase the number of shares sold by the Commonwealth to 2.47 billion shares¹. Refer to section 5.12 of the Prospectus, 'Over-allocation and market stabilisation', for more information.

In addition, the base offer size may be increased where the number of shares required to satisfy allocations for the Retail Offer, the POWL Minimum Guarantee and Institutional Investors' Initial Allocation Benefits exceeds 2.15 billion shares. In this event, the size of the Over-allocation Option would also increase proportionately, to remain at 15% of the increased base offer size.

Should the base offer size be increased in these circumstances, shares allocated to Certain Institutional Investors (see section 2.6.2 of the Prospectus, 'Allocation under the Institutional Offer') would be limited to any shares the Joint Global Coordinators agree to over-allocate under the Institutional Offer, that is, no more than 15% of the increased base offer size (see section 2.6.2 of the Prospectus, 'Allocation Under the Institutional Offer'). After the Offer, the Commonwealth intends to transfer to the Future Fund all of its Telstra shares which are not sold in the Offer (including the Over-allocation Option and associated administrative mechanisms), although it will initially retain sufficient shares to meet bonus loyalty share obligations to Australian applicants in the Retail Offer. These retained shares will be held for the Commonwealth by the Trustee until they are transferred to those entitled, and will not be voted while they are so held. Any of these shares which are not ultimately required, because Australian instalment receipt holders have transferred instalment receipts and lost the right to receive bonus loyalty shares, will be transferred to the Future Fund after the Final Instalment Due Date.

Telstra shares transferred to the Future Fund cannot be sold during an escrow period of two years from the date instalment receipts under the Offer are first listed on ASX, subject to limited exceptions described in section 2.8 of the Prospectus, 'Future Fund Overview', and section 5.7 of the Prospectus, 'Future Fund'.

LODGING YOUR APPLICATION

Application forms must be completed and submitted in accordance with the instructions set out on the reverse of the application form and in the 'Application Instructions' commencing on page 40 in this Investment Statement.

¹ Assuming a base offer size of 2.15 billion shares.

3. Answers to important questions (continued)

Applications must be for a minimum of 500 shares and in multiples of 50 shares thereafter. If the Offer is over-subscribed, investors may be allocated less than the number of shares for which they apply, subject to their guaranteed minimum allocation, shareholder entitlement or firm allocation.

APPLICATION MONIES AND LODGEMENT OF APPLICATIONS

All applications must be made on the relevant application form and accompanied by a cheque or bank draft for the first instalment made payable to 'Telstra 3 Share Offer'. Cheques must be in Australian Dollars drawn on an Australian branch of an Australian bank, marked 'Not Negotiable' and must be payable to 'Telstra 3 Share Offer.' Bank drafts must be in Australian Dollars drawn on any registered bank in New Zealand.

Application forms and cheques or bank drafts (other than Firm Offer applications) should be mailed using the reply paid envelope provided. If you do not have a reply paid envelope, you should send your completed application form and cheque or bank draft either:

- to the following address:

Telstra 3 Share Offer
PO Box 90219
Auckland Mail Centre
Auckland 1142

or

- to any NZX Firm.

For investors who elect to participate in the Firm Offer, their broker will act as their agent in submitting their application and it will be the broker's responsibility to ensure that the investor's application is received by 4.00pm (New Zealand time) on the Closing Date (expected to be 9 November 2006). The Commonwealth and the Joint Global Coordinators take no responsibility for any acts or omissions by brokers in connection with any applications.

Applications and payments must be received by 4.00pm (New Zealand time) on the Closing Date (expected to be 9 November 2006). However, the Commonwealth, in consultation with the Joint Global Coordinators, may, without further notice, close the Offer (or any part of the Offer) early, extend the Offer (or any part of the Offer) or accept late applications, either generally or in particular cases.

ACCEPTANCE OF APPLICATIONS

The Commonwealth intends to accept all valid applications under the Retail Offer for at least the relevant guaranteed allocation. The Commonwealth reserves the right, however, to reject any application or to allocate to any person fewer shares than applied for by that person.

Applicants will receive a refund if they applied and paid for more shares than they were allocated. Telstra shareholders who have already provided their bank or other financial institution account details will receive any refund electronically into that account. All other applicants will receive any refund by cheque. No interest will be paid to applicants on any monies refunded.

An application represents an offer to buy shares from the Commonwealth on the terms and conditions set out in this Investment Statement, the Prospectus and on the application form and the page to which it is attached. A contract will be formed when the Commonwealth accepts an applicant's offer on the allocation of instalment receipts. The Commonwealth may accept an applicant's offer without further notice to that applicant. If an applicant's offer is accepted, that applicant will, subject to a condition regarding settlement of the International Purchase Agreement, receive an instalment receipt transaction confirmation statement. See section 3.8 of this Investment Statement, 'How do I cash in my investment?', for further details of the conditions regarding settlement of the International Purchase Agreement. Further details on the International Purchase Agreement are also set out in section 5.12 of the Prospectus, 'Over-allocation and market stabilisation'.

The Commonwealth reserves the right, at its discretion, to treat any application for greater than 200,000 shares as an application under the Institutional Offer. In addition, where the Commonwealth is advised by the Joint Global Coordinators that investors who would typically be regarded as Institutional Investors have applied as Retail Investors, the Commonwealth also reserves the right to treat such applications as applications under the Institutional Offer.

The Commonwealth reserves the right to reject or aggregate applications which appear to be multiple applications from the same person or from closely related persons. However, clients of brokers receiving firm allocations under the Firm Offer may also lodge an application under the Shareholder Entitlement Offer or the General Public Offer. Unless you are a client of a broker applying for a firm allocation under the Firm Offer, you may only apply for shares using one application form. An application by you acting in another legal capacity (such as a trustee of a trust) will not be treated as a multiple application.

ALLOCATION OF SHARES

A proportion of the shares to be sold in the Offer will be reserved for the entitlements, firm allocations and guaranteed minimum allocations under the Shareholder Entitlement Offer, the Firm Offer and the General Public Offer respectively, any POWL Minimum Guarantee and Institutional Investors' Initial Allocation Benefits. Any reserve shares not allocated to these components of the Offer will be allocated to satisfy applications from Retail Investors above their guaranteed minimum allocations and entitlements as well as to satisfy bids in the Institutional Offer.

Details of each component of the Retail Offer are described in section 1 of this Investment Statement, 'How to Apply'.

In certain limited circumstances, where a significant development has occurred during the Offer period applicants may have the right to withdraw their applications. Further details of this withdrawal right are discussed in section 3.6 of this Investment Statement, 'What are my risks?'.

3.4 What are the charges?

PAYMENT OF CHARGES TO TELSTRA, THE COMMONWEALTH OR THE TRUSTEE

An investor must pay the first instalment and the final instalment to the Commonwealth. If an instalment receipt holder defaults in paying the final instalment, the Trustee may sell some or all of the shares (including all dividends, rights or other benefits accruing or received on the shares after 29 May 2008) underlying the holder's instalment receipts to satisfy the final instalment (and any other related amounts the instalment receipt holder may owe to the Commonwealth, including interest on the amount of the final instalment (calculated at 12% per annum) and administration charges (including a A\$75 administration fee per default), costs, expenses, taxes and duties).

Other than as described above, an investor is not required to pay any charges (including brokerage) to Telstra, the Commonwealth, or any person associated with either Telstra or the Commonwealth, in relation to the Offer.

Any fees and expenses payable to the Trustee are to be met by the Commonwealth and will not be met by instalment receipt holders or Telstra.

No fee is payable to the Commonwealth in relation to its role as promoter of the New Zealand Offer.

The Commonwealth has agreed to reimburse certain expenses relating to the Offer incurred by Telstra. These expenses are in the nature of legal, advisory, listing, share registry, D & O insurance, marketing and administrative costs which are presently estimated to be in the order of A\$25 million.

The Commonwealth has provided certain indemnities to Telstra including indemnifying Telstra, its directors and certain of its executives against liabilities arising in connection with the Offer. Further details about these indemnities are set out in section 16 of the Prospectus Appendix, 'Indemnities provided by the Commonwealth of Australia'.

BROKERAGE AND OTHER FEES

Brokers and financial planners (including the Retail Lead Managers) will be entitled to a brokerage fee of 0.75% of the net present value of the total amount payable by Retail Investors for shares sold pursuant to applications lodged through brokers, including shareholder entitlements but excluding applications under the Firm Offer, and a brokerage fee of 1.25% of the net present value of the total amount payable by Retail Investors for shares sold pursuant to applications under the Firm Offer.

Commission will be payable to the Institutional Selling Syndicate in respect of shares allocated to Institutional Investors under the Institutional Offer. In respect of shares allocated to Australian and New Zealand institutions, the relevant syndicate members will be paid collectively a commission of 0.4% of the net present value of the total amount payable by Institutional Investors. This commission rate will also be paid to participating brokers in respect of allocations made to Retail Investors in relation to successful broker sponsored bids lodged by those brokers on behalf of Retail Investors. These fees will not constitute part of the commissions payable to the Institutional Selling Syndicate. In respect of shares sold outside Australia and New Zealand, the international syndicate members will receive collectively a commission of 0.4% of the net present value of the total amount payable by Institutional Investors and a further 0.04% of the amount of the first instalment representing an underwriting fee. The underwriting fee component will not apply to shares that are the subject of the Over-allocation Option and associated stock borrowing arrangements. Further details about the Over-allocation Option are set out in section 5.12 of the Prospectus, 'Over-allocation and market stabilisation'.

For the purpose of calculating the net present value of the total amount payable, the amount of the first instalment plus the discounted amount of the final instalment will be used.

The Commonwealth will pay the brokerage fees and commissions referred to above.

3. Answers to important questions (continued)

Normal brokerage charges may apply to the on-sale of instalment receipts and/or shares and those charges will be payable by the seller and/or buyer under the relevant transaction.

If the Offer proceeds, the total estimated costs in connection with the Offer, including advisory, legal, accounting, tax, listing, share registry services and administrative fees, as well as printing, advertising and other expenses (but excluding commissions and brokerage described above) will be approximately A\$100 million and will be paid by the Commonwealth. A description of these costs are set out in section 2 of the Prospectus Appendix, 'Interests of advisers and experts'.

TRUSTEE

Under the Trust Deed, the Commonwealth must pay all expenses of the Trustee. However, the instalment receipt holder must pay any expenses relating to the sale of shares arising from enforcement action taken by the Commonwealth to recover the final instalment and certain other costs and charges. The Commonwealth also indemnifies the Trustee from all liabilities arising from the performance of its responsibilities under the Trust Deed.

3.5 What returns will I get?

None of the Commonwealth, Telstra, the Board, nor any person associated with the Commonwealth, Telstra or the Offer guarantee or promise any return (including capital return on either instalment receipts or shares), the performance of Telstra, the performance of the instalment receipts or shares offered under this Investment Statement and the Prospectus or the market price at which the instalment receipts or shares will trade.

You will receive two types of returns on your shares represented by the instalment receipts.

THROUGH DIVIDENDS PAID TO INVESTORS

Instalment receipt holders will be entitled to receive or benefit from any dividends paid by Telstra on the shares represented by the instalment receipts.

The Board has considered the level of future dividends. In the interests of shareholders, it is the current intention of the Board to declare fully franked ordinary dividends of A\$0.28 per share for Telstra's financial year ending on 30 June 2007 (financial year 2007). This assumes Telstra continues to be successful in implementing its transformation strategy and there are no further material adverse regulatory outcomes during the course of the financial year 2007 – see section 3.4 of the Prospectus, 'Transformation strategy', and section 3.6 of this Investment Statement, 'What are my risks?'.

The Board is unable to give guidance on ordinary dividends for Telstra's financial year to 30 June 2008 owing to the remaining uncertainty attached to regulatory outcomes and the impact on its business, as well as transformation and market place risks – see section 3.6 of this Investment Statement, 'What are my risks?'. Whether any dividend is paid, and the final amount of dividends declared for any year, is a decision for the Board to make twice a year in its normal cycle having regard to the company's earnings and cash flow as well as regulatory impacts and all other factors that affect the operation of Telstra.

For further explanation of Telstra's financial outlook, refer to section 3.5 of the Prospectus, 'Outlook'.

Telstra normally pays any interim dividend in March or April and any final dividend in September or October of each year.

Where dividends are payable, Telstra is the entity legally liable to pay them to shareholders.

If Telstra declares or pays a dividend (other than by way of a bonus issue), the Trustee must:

- if the dividend is to be paid wholly or partly in cash, direct Telstra to pay the cash part of the dividend directly to the holder of the instalment receipt according to the number of instalment receipts registered in such holder's name; and
- if the dividend is not to be paid wholly in cash, take all reasonable steps (as defined in the Trust Deed) to cause the non-cash part of the dividend to vest in the instalment receipt holder. The Trustee is not required to take steps which are unlawful or impracticable or which may involve unindemnified expense to the Trustee or which may potentially expose the Trustee to liability.

The Trustee will take all reasonable steps (as defined in the Trust Deed) to require that the payment of any dividend to the instalment receipt holder is made at the same time and in the same manner as Telstra pays dividends to shareholders. The Trustee is not responsible to the instalment receipt holder for any neglect or default on Telstra's part in relation to dividends.

Payments will be made to an instalment receipt holder if that holder is on the instalment receipt register at the relevant time. Further details of these dates and the payment of dividends is set out in section 11 of the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

THROUGH THE SALE OF INSTALMENT RECEIPTS OR THE SALE OF THE SHARES

Instalment receipt holders may benefit from any increase in the market price of their instalment receipts or (following the payment of the final instalment) their shares. The market price of instalment receipts and shares may also decline.

If an instalment receipt holder sells their instalment receipts or (following payment of the final instalment), their shares, the purchaser of the instalment receipts or shares will be legally liable to pay the purchase price for those instalment receipts or shares. It is strongly recommended that investors seek independent tax advice from their lawyer or taxation adviser in respect of any capital gain made on a resale of instalment receipts and shares.

The share prices for many companies have in recent times been subject to wide fluctuations, which in many cases may reflect a diverse range of non-company specific influences, such as global hostilities and tensions, acts of terrorism, natural disasters and the general state of the economy. Such market fluctuations may adversely affect the market price of the shares. No assurances can be made that Telstra's market performance will not be adversely affected by any such market fluctuations or factors.

There can be no guarantee that an active market in the instalment receipts will develop or that the price of the instalment receipts or shares will increase. There may be relatively few or many potential buyers or sellers of the instalment receipts or shares on NZSX or ASX at any time. This may increase the volatility of the market price of the instalment receipts and shares. It may also affect the prevailing market price at which instalment receipt holders are able to sell their instalment receipts and shareholders are able to sell their shares. This may result in instalment receipt holders or shareholders receiving a market price for their instalment receipts or shares that is less or more than the original purchase price that they paid.

KEY FACTORS THAT DETERMINE RETURNS

Whether Telstra's future financial performance will improve is largely dependent on its ability to implement and execute its transformation strategy successfully and generate the increased volumes and usage rates for its products and services it seeks to achieve. In addition, Telstra's transformation is a five year plan, with the early years involving the deployment of large amounts of capital, the roll-out of new networks and systems and the incurrence of additional operating costs and provisions associated with the fundamental changes Telstra is implementing throughout its systems and operations. Telstra's ability to successfully implement its transformation strategy is subject to

significant risks. See section 3.6 of this Investment Statement, 'What are my risks?'.

Telstra is involved in continuing discussions over the current and future regulatory environment impacting the Australian telecommunications industry in general and Telstra in particular. There are several key regulatory issues, whether recently made or pending, which will shape Telstra's future. These include:

- regulated wholesale access pricing;
- retail price controls;
- any potential competitor access to Telstra's NEXT G™ wireless network; and
- the use by the ACCC of the conduct rules in the Trade Practices Act to affect the way Telstra prices its products and services.

Telstra believes that several key factors may impact its future financial results, including:

- Telstra's ability to implement and execute its transformation plan, including the deployment of NEXT G™ wireless services, and the rationalisation of its various IT and network platforms;
- Telstra's ability to introduce new value-added products and services to compensate for lower prices, volumes and earnings. Telstra expects to realise from its traditional higher margin product and service lines;
- the difficulties for Telstra in predicting regulatory outcomes and the unpredictable actions of the key regulators; and
- changes to Telstra's competitive environment as markets and technologies evolve and competition intensifies and the actions and initiatives of Telstra's major competitors.

For further discussion of Telstra's financial outlook, refer to section 3.5 of the Prospectus, 'Outlook'.

For other factors that may determine returns and which are relevant to Telstra, investors should also refer to section 5.5 of the Prospectus, 'Effect of the Offer on Telstra'.

Returns on the shares (and therefore the instalment receipts) are affected by numerous additional factors and these factors may affect the amount of the proceeds of any eventual sale of shares or the instalment receipts and the amount of any dividend paid by Telstra. Such factors include:

- general economic conditions, including inflation rates and interest rates;
- variations in the local and global market for listed stocks, in general, or for telecommunication stocks, in particular;

3. Answers to important questions (continued)

- changes to government policy, legislation or regulation in Australia, New Zealand or in other markets in which Telstra operates;
- inclusion or removal from major market indices;
- the nature of competition in the industries in which Telstra operates; and
- general operational and business risks, which are set out in detail in section 3.6 of this Investment Statement, 'What are my risks?'.

NEW ZEALAND AND AUSTRALIAN TAXATION CONSIDERATIONS FOR NEW ZEALAND RESIDENTS

The purpose of this summary is to provide an overview of the likely Australian and New Zealand taxation consequences that may arise for certain holders of instalment receipts and shares who are residents of New Zealand for taxation purposes.

The contents of this summary:

- apply only to holders who are residents of New Zealand for taxation purposes; and
- are based on the tax law of Australia and New Zealand as it stands as at the date of this Investment Statement.

Australia and New Zealand are in a process of major tax reform. It is important that potential investors monitor developments as changes to the tax legislation or administration of the law (or both) may have a material impact on the comments provided in this summary. Potential investors are advised to obtain advice on these tax reforms at the time they invest in, or deal with, instalment receipts or shares.

This summary is not a comprehensive description of all New Zealand and Australian tax considerations that may be relevant to a decision to purchase, sell or hold instalment receipts or shares. The summary sets out the Australian and New Zealand taxation consequences of:

- dividends paid on the Telstra shares which the Trustee directs to instalment receipt holders;
- sale of instalment receipts by holders;
- payment of the final instalment; and
- sale of the Telstra shares (by holders or the Trustee).

A class ruling has been sought from the Australian Taxation Office (ATO) for participants in the Offer. A draft class ruling has been provided which accords with a number of statements contained in this summary. A final class ruling is expected to be issued by the ATO after the release of this Investment Statement. Whilst it is not expected to be the case, the ATO may express views in the final class ruling which may be different to the draft ruling.

Taxation is a complex area of law and the taxation consequences for a holder may differ from those detailed in this summary, depending

on the holder's particular circumstances. Accordingly, potential investors should not rely on this summary as a substitute for professional advice. All potential investors who are considering investing in shares should obtain their own independent professional advice in light of their particular circumstances before deciding to apply for shares.

Dividends

New Zealand tax

In this Investment Statement 'dividends' includes taxable bonus issues and any amounts received by shareholders in respect of share buy-backs or cancellations by Telstra to the extent such amounts are deemed dividends for the purposes of New Zealand tax law.

The comments below apply equally to dividends declared on the shares while the New Zealand resident holds an instalment receipt and those declared after the final instalment has been paid and the shares are transferred to the New Zealand resident.

A New Zealand tax resident is unable to utilise Australian franking credits against his or her New Zealand income tax liability.

A New Zealand individual tax resident will be required to include the full amount of any dividend, including any Australian withholding tax deducted (converted to New Zealand dollars at the time of declaration) and any New Zealand imputation credits attached to the dividend, in an income tax return or income statement. A New Zealand individual tax resident will be entitled to a credit in New Zealand for Australian non-resident withholding tax (DWHT) imposed on unfranked dividends and any New Zealand imputation credits attached up to the amount of New Zealand tax otherwise payable on the dividend. Any unutilised imputation credits can be credited against tax on other income or carried forward and credited against tax on income derived in later years.

New Zealand resident companies are generally not subject to income tax on dividends received from overseas companies. However, New Zealand resident company investors with less than a 10% voting interest in Telstra will be liable for a foreign dividend withholding payment (FDWP) at the rate of 33% on any dividends that they receive. A foreign tax credit should be available for any Australian DWHT imposed on unfranked dividends from Telstra and any New Zealand imputation credits attached to the dividend, but only to the extent of the FDWP imposed on the dividends.

Trans-Tasman imputation

Australian companies can elect to maintain a New Zealand imputation credit account and collect imputation credits from income tax paid in New Zealand. New Zealand investors in an Australian company that maintains an imputation credit account and attaches imputation

credits to dividends are able to receive a proportion of the New Zealand imputation credits equal to their interest in the Australian company.

Telstra has made the necessary election to maintain an imputation credit account. The level of imputation credits that have been generated by Telstra to date is insignificant. It is anticipated that dividends paid by Telstra will not be fully imputed with New Zealand imputation credits. Therefore, depending on their individual tax paying positions, New Zealand holders are likely to be required to pay income tax or FDWP, as appropriate, on a proportion of dividends received.

Australian tax

Details of the Australian withholding tax and franking system are set out in section 5.14 in the Prospectus, 'Taxation'.

The income tax treatment of distributions to instalment receipt holders will mirror the income tax treatment of distributions to shareholders. While the distributions on instalment receipts are, strictly speaking, trust distributions, they will retain the character of the dividends on the shares and will be treated in the same way for Australian income tax purposes as dividends on the shares.

Dividends with full Australian franking credits attached, which are paid to non-resident shareholders, are not subject to Australian DWHT. Dividends, to the extent that they are not fully franked, are generally subject to DWHT at the rate of 30% (unless reduced by a double tax treaty). In the case of New Zealand tax residents, provided that the instalment receipts (and later the shares) are not effectively connected with a permanent establishment or a fixed base of the New Zealand tax resident in Australia through which the New Zealand tax resident carries on business in Australia or performs independent personal services, the rate is reduced under the double tax treaty between Australia and New Zealand to 15%.

Accordingly, dividends paid by Telstra to New Zealand tax residents, to the extent to which they are franked (with Australian franking credits), will not be subject to DWHT. The unfranked part of any dividends paid by Telstra to New Zealand tax residents will be subject to DWHT of 15%. Telstra will deduct Australian DWHT and so the New Zealand tax resident will receive dividends net of Australian DWHT.

Fully franked dividends (franked with Australian franking credits) paid to New Zealand residents and dividends that have been subject to DWHT are not subject to any further Australian tax.

Sale of investment receipts and shares

New Zealand tax

A profit on the sale of instalment receipts or shares could be subject to New Zealand tax in certain circumstances. Gains on the sale of instalment receipts or shares by a New Zealand tax resident will be

subject to New Zealand tax if the seller is in the business of dealing in instalment receipts or shares or if the instalment receipts or shares were purchased for the purpose of sale or if the instalment receipts or shares were sold as part of a profit-making undertaking or scheme. In these circumstances any exchange gain or loss realised on the sale will be taken into account in measuring the taxable gain (or deductible loss).

Where a New Zealand tax resident not liable for New Zealand income tax on the sale of instalment receipts or shares is subject to Australian capital gains tax (CGT), no credit for Australian capital gains tax will be available in New Zealand.

Australian tax

Instalment receipts on capital account

It is important to note that the Australian taxation outcomes discussed below are likely to change as a result of the introduction of draft legislation which is expected to become effective later this year (discussed further below).

An instalment receipt is an interest in a resident trust estate for Australian CGT purposes. The disposal of the instalment receipts will constitute a 'CGT event' under Part 3-1 of the Income Tax Assessment Act 1997. A New Zealand tax resident instalment receipt holder will be required to include in their Australian assessable income capital gains realised on the sale of instalment receipts (after allowing for any capital losses).

The non-resident rate of income tax currently ranges from 29% to 45% for individuals and 30% for New Zealand resident companies. Investors who incur a liability for Australian income tax will be required to file an income tax return in Australia. The trustee of a New Zealand resident trust will typically be liable to pay tax on behalf of its beneficiaries. The tax treatment of beneficiaries of a New Zealand resident trust will depend on the tax status of the beneficiaries. The trustee is authorised to withhold sufficient funds from distributions to pay the tax.

The assessable capital gain will generally be the difference between the arm's length consideration in respect of the disposal of the instalment receipt (including the amount of the final instalment) and the cost base. The cost base of an instalment receipt will include the consideration on acquisition (including the amount of the final instalment) and incidental costs associated with acquisition and disposal.

If the instalment receipts have been held for at least 12 months prior to sale, New Zealand tax resident individuals may be entitled to discount the capital gain arising on disposal of the instalment receipts by 50%.

Where beneficiaries of a New Zealand resident trust are presently entitled, the net capital gain for the trust is determined with the benefit of the 50% CGT discount where instalment receipts have been held for at least 12 months. Upon distribution by the trustee, the net capital

3. Answers to important questions (continued)

gain would be grossed up to 100% in the hands of the beneficiaries. Beneficiaries that are individuals should then be entitled to the 50% CGT discount in respect of the disposal of the instalment receipts by the trust. The CGT discount will not be available to New Zealand tax resident companies.

If holders sell an instalment receipt for less than its cost base, holders may incur a capital loss. A capital loss can only be offset against capital gains for Australian tax purposes.

Shares on capital account

New Zealand tax resident shareholders should only be subject to Australian tax on capital gains realised on the sale of shares if the shareholders used the shares in carrying on a business through a permanent establishment in Australia, or if the shareholders (together with their associates) held more than 10% of the shares issued by Telstra (by value) at any time during the 5 years prior to disposal (even in circumstances where the Trustee has to sell a holder's shares because the holder did not pay the final instalment).

Proposed changes to taxation of capital gains derived by non-residents

The Australian Government has introduced a Bill into Parliament which proposes to narrow the range of assets on which a foreign resident will be liable to Australian CGT to Australian real property and the business assets (other than Australian real property) of a foreign resident's Australian permanent establishment. The proposed measures will only be effective from the date of Royal Assent to the relevant legislation.

Generally, under the proposed changes New Zealand resident investors (including instalment receipt holders) may only be subject to CGT where the investor holds an interest in 'taxable Australian property'. 'Taxable Australian property' includes direct and indirect interests in real property located in Australia or the business assets of an Australian permanent establishment of the investor.

Indirect interests in Australian real property include shares in interposed companies or interests in other interposed entities that hold Australian real property, where the value of the shares or interests is wholly or principally attributable to taxable Australian real property. This would be a question of fact to be determined at the time of the disposal. It is considered that this is unlikely to be the case based on the current asset profile of Telstra. However, investors should seek their own independent taxation advice in relation to the potential impact of the proposed changes to take into account their own circumstances.

Instalment receipts or shares on revenue account

A New Zealand tax resident investing on revenue account (without an Australian permanent establishment or fixed base for the purpose of performing independent personal services) may not be subject to Australian tax on the sale of instalment receipts or shares by virtue

of relief available under the double tax treaty between Australia and New Zealand. Investors should seek their own independent taxation advice should they wish to rely on the double tax treaty for relief from liability to pay Australian income tax upon the disposal of instalment receipts or shares.

Gift duty

New Zealand gift duty

Gifts of instalment receipts or shares made by a donor domiciled in New Zealand will be subject to New Zealand gift duty. Gift duty applies at 5% on the excess of gifts over NZ\$27,000 in any 12 month period and rises on a graduated scale to a maximum rate of 25% of the excess amount of gifts over NZ\$72,000.

Australian gift duty

No gift duty is imposed in Australia.

Stamp duty and GST

New Zealand duty and GST

New Zealand does not levy stamp duty on the acquisition or transfer of instalment receipts or shares.

No New Zealand goods and services tax is payable on the acquisition or transfer of instalment receipts or shares.

Australian duty and GST

Instalment receipts and shares which are quoted on the ASX, or a stock exchange that is a member of the Federation Internationale de Bourses des Valeurs (including NZX) will not result in Australian stamp duty being payable by a New Zealand instalment receipt holder on the issue of instalment receipts, payment of the first instalment, or the transfer of instalment receipts or shares on payment of the final instalment.

Generally, trading of quoted instalment receipts or shares on NZSX will not be subject to Australian stamp duty. However, transfers or agreements for transfers, whilst not quoted, or suspended from quotation, may have Australian stamp duty consequences for the transferee.

Pursuant to the provisions of the Australian goods and services tax law as currently in force, goods and services tax will not be payable on the issue of instalment receipts, payment of the first instalment or the transfer of shares to you on payment of the final instalment. GST will not be payable on any other transfer of instalment receipts or shares.

Proposed offshore portfolio investment rules

The New Zealand Government is proposing changes to the rules relating to the taxation of portfolio investments (investments of less than 10%) held by New Zealand residents in foreign companies. These proposals

are currently being reconsidered and the redraft legislation has not been publicly released as at the date of this Investment Statement.

However, the proposed rules are not intended to apply in respect of shares in an Australian resident entity listed on ASX that is required to maintain an Australian franking account and is liable to Australian tax on income derived from Australia and income derived from overseas. Telstra fulfils these requirements. Consequently, based on the announced proposals, a New Zealand resident should not be required to apply the proposed rules in respect of the instalment receipts or the shares.

The proposed rules were intended to apply from 1 April 2007. Legislation will not be finalised until the end of this year and the rules are likely to be subject to further change before that time. However, the exemption for shares listed on ASX is unlikely to be removed.

Pricing

The final price for the shares payable by a New Zealand resident under this Offer does not include any capitalised interest. For the purposes of the financial arrangements rules in the Income Tax Act 2004 (NZ), the final price is the lowest price that the Commonwealth and the investor would have agreed upon for the shares at the time of application if payment had been made in full at the time the first right in the shares passed to the New Zealand investor. Therefore, no interest income or expenditure should arise under the financial arrangements rules as a result of the purchase of shares or instalment receipts.

No guarantee

None of the Commonwealth, the Board, Telstra, nor any person associated with the Commonwealth, Telstra or the Offer guarantee or promise any return, the performance of Telstra, the performance of the instalment receipts or shares offered under this Investment Statement and the Prospectus or the market price at which the instalment receipts or shares will trade.

3.6 What are my risks?

If any significant developments occur during the course of the Offer, the Commonwealth and Telstra may advise investors of those developments by publishing advertisements in newspapers and on the website set up for the Offer (www.t3shareoffer.com.au) pursuant to an exemption granted by the Securities Commission under the Securities Act 1978.

If the supplementary disclosure discloses a significant change, or a new matter, that has arisen since the date of this Investment Statement which is materially adverse from the point of view of an investor, then

in addition to any other rights of withdrawal that an applicant may have, an applicant whose application to purchase instalment receipts is received before midnight New Zealand time on the second business day after the publication of the advertisement in accordance with the exemption may withdraw his or her application before 4.00pm New Zealand time on the date which is one month after the publication of the advertisement by giving written notice of withdrawal to the Commonwealth and be refunded in accordance with the procedure set out in the advertisement.

The major risks to investors are an inability to recover their original investment and that they may not receive the returns they expect. This could occur for a number of reasons including:

- the price at which investors are able to sell their instalment receipts or (after payment of the final instalment) their shares, is less than the price the investor paid for them due to market volatility or for other reasons;
- they are unable to sell their instalment receipts or (after payment of the final instalment) their shares at all;
- the Trustee defaults in its obligations;
- the market for the instalment receipts or the shares becomes illiquid or ceases to exist; or
- Telstra is placed in receivership or liquidation or is otherwise unable to pay distributions. Investors could receive none, or only some, of the returns mentioned above if Telstra becomes insolvent for any reason.

If Telstra's operational and financial performance is worse than investors expect, the future market price for instalment receipts and shares may be less than the price paid for them and returns on the shares and instalment receipts may be less than anticipated.

Factors affecting the performance of the returns on the shares are described under section 3.5 of this Investment Statement, 'What returns will I get?'. There are a number of business specific risks to Telstra which may affect the future operating and financial performance of Telstra and the value of the instalment receipts and shares. Prior to making an investment decision, prospective investors should carefully consider the following risk factors, as well as other information contained in this Investment Statement and in the Prospectus.

3. Answers to important questions (continued)

RISKS ASSOCIATED WITH TELSTRA

Telstra faces several risks, whether they be regulatory, transformation related or from general market or operating conditions. The following describes some of the significant risks that could affect Telstra. These risks are also described in the 2006 Supplemental Information, which is available on request (see section 3.11 of this Investment Statement, 'What other information can I obtain about this investment?'). Some risks may be unknown to Telstra or the Commonwealth and other risks, currently believed to be immaterial, could turn out to be material. Some or all of these could materially adversely affect Telstra's business, profits, assets, liquidity and capital resources. These risks should be considered in conjunction with any forward-looking statements in this Investment Statement and the cautionary statement regarding forward-looking information in the 'Important Notices' section at the front of this Investment Statement.

Regulatory risks

Telstra operates in a highly regulated environment that significantly affects its business. In particular, Telstra believes regulation can limit Telstra's ability to pursue certain business opportunities and the returns it can generate for its shareholders. Regulation impacts the way Telstra does business and Telstra believes it is the most significant ongoing risk to Telstra. There can be no assurance as to future policies and regulatory outcomes. Regulatory outcomes may be significantly adverse to Telstra shareholders. Telstra believes the current regulatory regime is value destroying. However, Telstra is committed to seeking regulatory reform on behalf of its shareholders.

Telstra faces substantial regulatory risks that it believes have, and will continue to have, substantial adverse effects on its business.

A description of the aims of the regulatory regime is set out in section 5.3 of the Prospectus, 'Commonwealth as shareholder and regulatory'.

Risk	Description	Risk Impact
Access Pricing	The ACCC can require Telstra to provide certain services to its competitors using its networks at a price based on the ACCC's calculation of the efficient costs of providing these services if the parties fail to agree. In many cases Telstra has disagreed with the ACCC's calculation of these costs. The ACCC is yet to issue final determinations in arbitrations about prices Telstra charges its competitors for various services, including for unconditioned local loop service (ULLS) and spectrum sharing service (SSS). Telstra is effectively required by law to charge the same prices for a basic line rental service for all retail customers across Australia. The ACCC has not, however, adopted an averaging approach in assessing ULLS prices Telstra can charge its competitors to access its network. Instead, the ACCC has in its interim decisions set prices which differentiate between metropolitan and non-metropolitan areas. As a result of this and differences in the approaches to estimating costs, the prices set to date are well below Telstra's calculation of the efficient costs of supply. In addition, the ACCC proposes to significantly reduce SSS prices which Telstra believes would lead to accelerated growth in SSS, enabling Telstra's competitors to provide broadband and VoIP services while Telstra is restricted to supplying basic access services. Further, Telstra believes such reduced access prices would be likely to lead to a reduction in Telstra retail prices.	Telstra's competitors can target customers in metropolitan areas where access prices are low, leaving Telstra to provide services to some customers in high cost regional and rural areas at the same retail price as in metropolitan areas. The ACCC may reduce access prices further which would adversely affect Telstra's revenues, earnings and shareholder returns, including dividends. Telstra will consider all avenues open to it to challenge any such outcome.

Risk	Description	Risk Impact
Restrictions on future investments in Telstra's business	Telstra seeks a competitive rate of return when it invests its capital. If Telstra cannot be confident that ACCC regulation of prices for competitor access to a new network will allow a competitive rate of return, Telstra will not invest in the network. This year, Telstra planned to start building a A\$3 billion FTTN network. However, Telstra disagreed with the ACCC on the price its competitors should pay for access to the network and, as a result, Telstra decided not to build the network.	Telstra believes FTTN is an example of how Telstra is and could be exposed to significant limitations and costs in relation to its current and future activities, which may make it prudent for Telstra not to engage in some business activities or to delay or defer capital projects. Telstra believes these regulatory risks could therefore have an adverse effect on the returns Telstra can generate for its shareholders and could benefit its competitors.
Mandated access to Telstra networks	A key part of Telstra's transformation strategy involves deploying next generation networks, including its new NEXT G™ wireless network. The ACCC may hold a public inquiry at any time into whether compulsory competitor access to this network should be required. Telstra believes such compulsory competition access would not be appropriate because of the wide availability of competing wireless networks.	If the ACCC allows competitors to access Telstra's new NEXT G™ wireless network, this would deprive Telstra of the benefits of the wider coverage of its network and Telstra believes this would materially adversely affect its business and shareholder returns, including dividends. This may undermine Telstra's commercial incentives to continue to invest in the NEXT G™ wireless network, for example, to increase data speeds.
Conduct regulation	Telstra and the ACCC differ in critical instances in their views of what amounts to anti-competitive conduct in breach of the Trade Practices Act. For example, the ACCC has stated it has reason to believe that Telstra, by raising its basic access prices to competitors without a similar increase in retail prices, has engaged in anti-competitive conduct. In Telstra's view, an increase in access prices to allow a greater recovery of its costs is not anti-competitive conduct. The ACCC may take Telstra to the Federal Court for this alleged breach. The maximum potential penalties which the Court could impose exceed A\$470 million as at 30 September 2006 and are increasing at A\$3 million per day. Optus has issued proceedings in the Federal Court in the same matter seeking damages and an injunction. Telstra will vigorously defend the proceedings on the basis that it has not acted anti-competitively and should be allowed to move its prices closer to its costs.	The ACCC may in future reach the view that other Telstra conduct is a breach of the Trade Practices Act. For example, a refusal by Telstra to supply services to its competitors for what Telstra believes to be normal commercial reasons may in the ACCC's view be a breach of the Act. Telstra believes that, should the ACCC allege anti-competitive conduct, it will rely upon the potential for very large fines in an endeavour to have Telstra modify what Telstra believes to be normal commercial behaviour.
Wide regulatory discretion	The Minister for Communications has a broad power to impose and vary licence conditions on Telstra. For example, the requirement to operate separate retail, wholesale and network business units (operational separation) places an additional burden on Telstra with many restrictions imposed on the way it runs its business. In addition, Telstra is subject to retail price controls and is obliged to make certain uneconomic services available in rural and remote areas, without receiving what in Telstra's opinion is a fair contribution to its costs from its competitors.	The real risk with operational separation, in Telstra's opinion, lies in the power of the Minister to determine the way Telstra conducts its business by directing it to vary its operational separation plan, subject to the aims and objects of the legislation which are very broad. These regulatory discretions could in Telstra's opinion be used with a significant adverse effect on Telstra.

3. Answers to important questions (continued)

Transformation strategy risks

Telstra may not succeed in implementing its transformation strategy or the strategy may not achieve the expected benefits.

Telstra has invested substantial capital and resources in the development, streamlining and modernisation of its networks and systems and has embarked on a substantial transformation of Telstra. However, Telstra may be required to incur significant capital expenditures in addition to those already planned in order to remain competitive. Further, transformation may not be an adequate solution to the ever present operational, competitive and technological risks.

Issue	Description	Risk Impact
Scale of transformation	The transformation strategy impacts all of Telstra's businesses, key systems and processes. It represents a complex and fundamental change in the way Telstra does business and requires large-scale customer migration as old networks and systems are replaced. Telstra's transformation strategy is, in Telstra management's view, the most comprehensive of any telecommunications company worldwide. Much of the new technology to be used in the transformation has not been deployed on a similar scale before and the timetable for implementation is aggressive. The next generation technologies which Telstra is deploying span its fixed line and NEXT G™ wireless networks and IT systems and processes. Other than NEXT G™, Telstra is still in the early stages of rolling out these technologies. The transformation program is very costly and has resulted in significant declines in Telstra's earnings and cash flow available for reinvestment or the payment of dividends. The IT component of the transformation is the most complex and highest risk element of the plan and is in the early stages of implementation. There is a significant risk that Telstra may not be successful in the implementation of its transformation strategy and in restoring earnings and cash flows to the level that existed when the transformation commenced.	The expected benefits of Telstra's transformation strategy may not be achieved or may be delayed, with a risk that Telstra will lose market share and profitability. If the transformation is not successful, there may be a significant reduction in shareholder returns including dividends. Telstra faces other risks in executing its transformation including: ■ Telstra's new technologies and network and IT support systems do not function as anticipated; ■ customer take-up and migration to new products and services, for example Telstra's recently launched NEXT G™ network, may be significantly less than planned and customers may not be willing to pay for some of the value-added services; ■ the migration of Telstra's CDMA subscribers may take longer than expected, leading to significant additional costs for Telstra; ■ key vendors, on which Telstra is dependent, may not perform as expected; ■ extended delays and other execution problems may occur in implementation of its transformation strategy; ■ competitors may in time offer similar services and capabilities; and ■ Telstra's actual capital and operating costs may turn out to be substantially greater than those budgeted.
Key personnel	The success of Telstra's transformation strategy is highly dependent on key personnel at Telstra. Telstra's CEO and a number of key members of his senior management team have joined the company within the last eighteen months and bring with them extensive telecommunications expertise.	A loss of one or more of these key executives, in particular the CEO or COO, could have a material adverse impact on Telstra's ability to achieve the transformation strategy and consequently on Telstra's shareholder returns, including dividends. Also, there is a risk that if the CEO were to leave Telstra one or more of the overseas executives he has recruited may also leave.
Retaining and attracting skilled and experienced people	As technology evolves Telstra will need to attract, retain and train its workforce.	Relevant skills are in short supply worldwide. This could impact Telstra's ability to remain competitive.

Market and operating risks

Aside from the regulatory and transformation risks, Telstra faces general market and operating risks. These risks may arise from changes in economic conditions both in Australia and the world, actions by Telstra's competitors and changing consumer trends.

Issue	Description	Risk Impact
Continued decline in high margin fixed line products and services	Telstra's traditional fixed line (or PSTN) revenues declined by 6.7% in financial year 2006. This decline will continue and may accelerate because of increasing competition, substantial regulatory impacts and the continued development of technologies that are able to offer increasingly viable alternatives to Telstra's PSTN services – such as mobiles and broadband services. PSTN revenues comprise a significant portion of Telstra's revenues and provide high margins and strong cash flows that enable it to invest in and develop its business.	If Telstra is unable to arrest the rate of decline, manage costs and grow alternative revenue sources in newer lower-margin products and services such as mobiles and broadband, Telstra's earnings and shareholder returns, including dividends, could be materially adversely affected.
Rapid technology change and convergence of traditional telecommunications markets	Rapid changes in telecommunications and IT are continuing to redefine the markets in which Telstra operates. These changes are likely to broaden the range and capabilities and reduce the costs of infrastructure capable of delivering these products and services, leading to greater competition. Telstra is responding through the modernisation of its networks and systems, including the deployment of the NEXT G™ network.	Future technology and market changes may create the need for other network and system changes at considerable cost to Telstra.
Competition	Although the overall Australian telecommunications market has experienced growth, Telstra has lost substantial market share in some key markets as a result of aggressive price competition, the development of new technologies and facilities by competitors, the market entry of non-traditional competitors with access to significant content and resources and increased regulatory action. As a result, Telstra has lowered the prices of its products and services. Telstra has also implemented strategies to better understand its customers and concentrated on delivering new and better products and services to remain competitive. The Government has announced Connect Australia, a A\$1.1 billion scheme to subsidise the building of infrastructure and the supply of broadband, mobile and fixed line services for people living in regional, rural and remote areas. Separately, nine of Telstra's competitors have outlined a possible model for the building of a jointly owned FTTN network to deliver broadband services to a large number of customers.	Telstra expects vigorous competition, including price- and facilities-based competition, to continue or accelerate with competitors marketing aggressively to its high-value customers. The continued loss of market share or downward pressure on prices would have an adverse effect on Telstra's financial results.
Joint investments	Telstra is in joint control of some of its businesses like FOXTEL, REACH, its 3GSM 2100 network sharing partnership with Hutchison (3GIS), CSL New World and SouFun.	Certain key matters in these businesses require the agreement of Telstra's partners. Any disputes or disagreements from time to time with its partners may negatively affect Telstra's ability to pursue its business strategies.
Network and system failures	Telstra's networks are vulnerable to extreme weather, cable cuts and intentional wrongdoing. Hardware or software failures and computer viruses could also affect the quality of its services. Major customer requirements could be in excess of Telstra's capacity to supply.	Any of these occurrences could result in customer dissatisfaction and compensation claims as well as reduced revenue and earnings.

3. Answers to important questions (continued)

Issue	Description	Risk Impact
Electromagnetic Energy (EME)	Reports have suggested that EME emissions from wireless equipment may have adverse health consequences. However, the overwhelming weight of scientific evidence is that there are no adverse health effects when wireless equipment is used in accordance with applicable standards.	Any widespread perception of EME risks may adversely affect Telstra's wireless business.

Investment and other risks

Issue	Description	Risk Impact
New director sought by the Commonwealth	There are significant differences between the Commonwealth and the Telstra Board with respect to the nomination for election as a director of Mr Geoffrey Cousins. Telstra's annual general meeting on 14 November 2006 will be held shortly before the completion of the Offer at which time the Commonwealth will still own 51.8% of Telstra shares. The Commonwealth has sought the nomination of Mr Geoffrey Cousins for election as a director of Telstra at the AGM and has indicated that it will vote in favour of the election of Mr Cousins. Mr Cousins has more than 26 years experience as a company director and is currently a director of Insurance Australia Group Limited. 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 Chief Executive of Optus Vision and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia. Mr Cousins is a director of the Cure Cancer Australia Foundation. Mr Cousins was a part-time consultant to the Prime Minister for 9 years resigning upon his nomination for the Board. The Government believes that Mr Cousins has the necessary qualifications to serve as a director given his broad experience across the telecommunications, broadcasting and advertising sectors and if elected would be an effective director. It does not intend or believe that Mr Cousins will act as a representative of the Government on the Telstra Board. It is not the Government's intention to issue additional directions specific to Telstra shares to the Future Fund (see section 5.7 of the Prospectus, 'Future Fund'). The Government raised Mr Cousins' nomination with Telstra at the beginning of the week commencing 11 September 2006 and believes that it has given Telstra ample time to consider his nomination, having regard to his extensive experience.	The Government believes that Mr Cousins will act independently as a director and not as a representative of the Government on the Telstra Board. However, Telstra operates in a highly regulated environment and the Commonwealth and its agencies are the key regulators. While Telstra acknowledges that Mr Cousins has served as a public company director, Telstra believes that there is a risk if Mr Cousins cannot be considered an independent director that this could prove disruptive to the smooth and effective functioning of the Board. Were this to occur, this could also affect Telstra's ability to attract and retain qualified directors.

Issue	Description	Risk Impact
New director sought by the Commonwealth (continued)	The Telstra Board did not seek Mr Cousins' nomination and did not have the opportunity to adequately assess Mr Cousins' candidacy in accordance with its governance processes, which include assessing a proposed director having regard to the independence requirements of the Board's Charter and the ASX Principles of Good Corporate Governance. The Board's Charter states that it is the Board's current intention that non-executive directors should be independent directors. While the Board has not reached a concluded view, the Board is concerned that there is a risk that Mr Cousins' previous consulting role with the Government could interfere with his capacity to be considered an independent director. In the Notice of Meeting for the AGM, the Board did not recommend that shareholders vote in favour of Mr Cousins. To be satisfied that a director is independent the Board would need to conclude, among other things, that the director is not "associated directly with a substantial shareholder of Telstra" and "is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the exercise of his or her unfettered and independent judgement and ability to act in the best interests of the company". The Board has been very careful to ensure that it does not, and is not seen to, prejudge in any way whether Mr Cousins would meet these requirements. However it is clear from the circumstances of Mr Cousins' nomination and his previous association with Government that these issues will require careful examination in accordance with best practice and that this is likely to take some time to conduct appropriately. The Board has commenced a process to assist it reaching a conclusion on these issues.	
Lower level of dividends	The Board's current intention is to declare dividends totalling A\$0.28 per share fully franked for the 2007 financial year, subject to Telstra continuing to be successful in implementing its transformation strategy and there being no further material adverse regulatory outcomes during the course of the year.	There is a risk that if Telstra is unsuccessful in implementing its transformation strategy or there are material adverse regulatory or other outcomes, the amount of dividends in any year may be reduced or not fully franked which would negatively affect yield.
Future Fund as a substantial shareholder	The Commonwealth will transfer its unsold Telstra shares to the Future Fund. The Future Fund will have a substantial shareholding in Telstra which, after a 2 year escrow period, it will be free to sell over the medium term to a level consistent with its investment strategy (at least below 20% of Telstra's issued share capital).	A sale or anticipated sale by the Future Fund of Telstra shares could reduce the price of Telstra shares, and could negatively impact the timing and effectiveness of capital raising activities, with an adverse impact on Telstra's cost of capital.

3. Answers to important questions (continued)

Issue	Description	Risk Impact
Future Fund as a substantial shareholder (continued)	The Finance Minister may also issue ministerial directions to the Future Fund Board in relation to Telstra shares held by the Future Fund, including specifying how voting rights relating to the shares are exercised. The Future Fund does not guarantee the shares.	Whilst the Government does not intend to issue directions specific to Telstra shares (except to impose the escrow and require the subsequent sell-down), a future Government might take a different approach, using the directions power to vote the shares held by the Future Fund to pursue Government objectives. There is also a risk that the interests of the Future Fund and / or the Commonwealth may not be aligned with the interests of other shareholders, and the Future Fund could take actions that are not in the best interests of Telstra's other shareholders.
Instalment receipts and market risk	Several factors, many of which are beyond the control of Telstra, may affect the price of the instalment receipts and the underlying shares, including overall economic conditions, changes in government policies, movement in interest rates and stock markets and general operational and business risks relating to Telstra and investor perception of the success of the transformation strategy	The price at which instalment receipts trade may be higher or lower than the amount of the first instalment. In addition, the price of Telstra shares following payment of the final instalment may be less than the total price you paid for them. Instalment receipts may trade at a price reflecting a premium or discount to the price of fully-paid Telstra shares The partial payment characteristics of instalment receipts may make percentage price movements in them greater than percentage price movements if they were fully paid shares in similar circumstances.

GENERAL RISKS ASSOCIATED WITH INVESTING IN THE INSTALMENT RECEIPTS AND UNDERLYING SHARES

Share price variations

The instalment receipts and shares are expected to be quoted on ASX and NZSX, where their price may rise or fall relative to the purchase price. The instalment receipts and shares offered under this Investment Statement carry no guarantee in respect of profitability, dividends, return of capital, or the price at which they may trade on ASX and NZSX.

The value of the shares will be determined by the stock market and will be subject to a range of factors beyond the control of the Commonwealth, Telstra, the Board and the senior management team of Telstra. Such factors include, but are not limited to, the demand for and availability of instalment receipts and shares, inclusion or exclusion of the shares in or from any share price indices, movements in domestic interest rates, exchange rates, inflation rates, fluctuations in the Australian, New Zealand and international stock markets and general domestic and economic activity.

Returns from an investment in the instalment receipts and shares may also depend on general stock market conditions as well as the performance of Telstra. There can be no guarantee that an active market in the instalment receipts will develop or that the market price of the instalment receipts or shares will not decline below the price paid by investors under the Offer. The market price for the instalment receipts and shares after quotation may be volatile, especially in the short term.

Economic factors

Changes in economic and business conditions or government policies in Australia, New Zealand or internationally may impact the fundamentals upon which the projected growth of Telstra's target markets or its cost structure and profitability will rely. Adverse changes in such things as the level

of inflation, interest rates, exchange rates, government policy (including fiscal, monetary and, as discussed above, regulatory policies), consumer spending and employment rates, among others, are outside the control of Telstra, the Board and officers of Telstra and may result in a material adverse impact on Telstra or its operating and financial performance.

Deferred payment characteristics of instalment receipts

Payment for the shares is to be made in two instalments. Instalment receipt holders will be bound to pay the final instalment when due.

You should note that partial payment characteristics of instalment receipts may make percentage price movements in them greater than percentage price movements if they were fully paid shares in similar circumstances.

The final instalment will be determined at the pricing of the Offer. At the date the final instalment is required to be paid, the market price of the shares may be less than the final price under this Offer. Details are set out in section 11 in the Prospectus Appendix, 'Description of Instalment Receipts and Trust Deed'.

All of these factors mean that on a winding up of Telstra or the sale of an instalment receipt or a share at any time, an instalment receipt holder may receive less than the amount paid in respect of that instalment receipt or share.

Consequences of insolvency

Investors will not be liable to pay any additional money (in excess of the application moneys and the final instalment amount) to any person as a result of Telstra's insolvency. The insolvency of Telstra will not relieve instalment receipt holders from their obligations to the Commonwealth to pay the final instalment.

All claims of creditors or holders of shares ranking in priority to the shares sold in the Offer rank ahead of the claims of holders of shares subscribed for in the Offer in the event of the liquidation or winding up of Telstra.

All holders of paid up shares rank equally upon a winding up or liquidation, in each case for an equal per share amount of any surplus assets of Telstra after payment or discharge of all other claims.

Any payment of surplus assets made while instalment receipts are on issue would be paid to instalment receipt holders, subject to deduction of the final instalment which would be paid to the Commonwealth. Further details of how instalment receipts are dealt with in these circumstances are set out in section 5.9 of the Prospectus, 'Rights of holders of instalment receipts and shareholders'.

3.7 Can the investment be altered?

The terms of the Offer are set out in this Investment Statement and the Prospectus. Those terms may be altered by the Commonwealth and Telstra by lodging a supplementary prospectus and (subject to any procedure otherwise authorised by any relief granted by ASIC or any exemption from the Securities Act obtained by the Commonwealth and Telstra, including the Securities Act (Telstra 3 Share Offer) Exemption Notice 2006) amending this Investment Statement by supplementary disclosure. Details of any supplementary prospectus or supplementary disclosure must be filed with the Registrar of Companies.

After an application has been accepted, the terms of the Offer cannot be altered without the applicant's consent.

The final price of the shares will be set under the Institutional Offer through a global book building process in which institutional, professional and other qualified bidders will submit bids for shares. It is expected that the final price of the shares will be announced on 20 November 2006. Investors who have paid the first instalment and who hold instalment receipts as at 15 May 2008 will have a continuing obligation to pay the final instalment (being the final price less the first instalment) on the Final Instalment Due Date.

If an instalment receipt holder defaults in paying the final instalment, the Trustee may sell some or all of the shares (including all dividends, rights or other benefits accruing or received on the shares after 29 May 2008) underlying the holder's instalment receipts to satisfy the final instalment (and any other related amounts the instalment receipt holder may owe to the Commonwealth, including interest on the amount of the final instalment (calculated at 12% per annum) and administration charges (including a A\$75 administration fee per default), costs, expenses, taxes and duties).

INSTALMENT RECEIPTS

The Trust Deed, which governs the terms of the instalment receipts, may be amended by a supplemental deed between the Commonwealth and the Trustee.

However, any amendment must not:

- impair the right of any instalment receipt holder to enjoy the beneficial interest in the shares before the instalment receipt holder pays the final instalment;
- impair the right of any instalment receipt holder to receive a transfer of the shares once the final instalment is paid;
- vary the date for payment of the final instalment or vary the amount of the final instalment; or
- remove the right to receive dividends unless that amendment results from an event, transaction or resolution by, or concerning, Telstra.

3. Answers to important questions (continued)

Instalment receipt holders have the right to pay the final instalment early and receive the underlying shares by giving notice to the Trustee and paying the final instalment in full.

SHARES

The rights attaching to the shares are governed primarily by Telstra's constitution, and in certain circumstances are regulated by the Corporations Act, the ASX Listing Rules and general law.

Under Telstra's constitution, the rights attaching to shares may only be varied or abrogated with the written consent of the holders of three quarters of the issued shares of that class of shares or with the approval of a special resolution passed at a separate meeting of the holders of the issued shares of that class. Currently, Telstra has only one class of ordinary shares.

Further information about Telstra's constitution is set out in section 10 of the Prospectus Appendix, 'Description of shares and constitution'.

Telstra proposes to replace its constitution at the upcoming annual general meeting on 14 November 2006. Because of the timing of the Offer, applicants under the Offer will not receive a notice of meeting and will not have the right to attend or vote at that annual general meeting on 14 November 2006, unless they are existing shareholders.

The proposed new constitution will, among other things, reflect changes arising from the Offer, regulatory changes under the Corporations Act and the ASX Listing Rules and developments in best practice corporate governance.

Some of the principal amendments proposed to be made to Telstra's constitution are summarised in section 10 of the Prospectus Appendix, 'Description of shares and constitution'.

3.8 How do I cash in my investment?

INSTALMENT RECEIPTS

Holders may transfer some or all of a holding of instalment receipts to another person subject to the terms of the Trust Deed. The Trust Deed provides that a person to whom instalment receipts are transferred automatically agrees to become bound by the Trust Deed and the instalment receipts as soon as they take a transfer of instalment receipts.

Instalment receipts may be transferred using the methods contained in the Trust Deed, which include:

- an electronic transfer under NZX's FASTER system; and
- a written instrument of transfer in the form in the schedules to the Trust Deed or in any other form approved by the Trustee (a number of standard forms of transfer used in Australia and New Zealand have been approved by the Trustee for this purpose).

There are restrictions on the level of foreign ownership of Telstra. Further information is set out in section 5.13 of the Prospectus, 'Restrictions on foreign ownership', section 10 of the Prospectus Appendix, 'Description of shares and constitution', and section 13 of the Prospectus Appendix, 'Restrictions on foreign ownership'.

Payment of Final Instalment

An instalment receipt holder will receive a reminder notice before the final instalment is due. The reminder notice will be sent to the address recorded against the name in the instalment receipt register. So that the Commonwealth can determine who must pay the final instalment, Telstra will ask ASX and NZX to suspend trading of the instalment receipts on or about 9 May 2008. The person on the instalment receipt register at the later of 7.00pm (Sydney time) on 15 May 2008, and the time at which various scheduled processing and system administration tasks are completed in respect of 15 May 2008, will have to pay the final instalment. This is so even if the reminder notice is not received.

If an instalment receipt holder defaults in paying the final instalment, the Trustee may sell some or all of the shares (including all dividends, rights or other benefits accruing or received on the shares after 29 May 2008) underlying the holder's instalment receipts to satisfy the final instalment (and any other related amounts the instalment receipt holder may owe to the Commonwealth, including interest on the amount of the final instalment (calculated at 12% per annum) and administration charges (including a \$75 administration fee per default), costs, expenses, taxes and duties).

The instalment receipt holder will receive any excess proceeds. If the proceeds of the sale of the shares are insufficient to cover the above amounts, the instalment receipt holder remains liable for the shortfall. The Trustee must take action against the instalment receipt holder to recover the shortfall unless the Commonwealth instructs it to cease that action. The Commonwealth can also take recovery action against the instalment receipt holder directly.

Investors should be aware that at any time of payment of the final instalment, the market price of Telstra shares may be less than the total of the first and final instalment amount.

Instalment receipt holders have the right to pay the final instalment early and receive the shares by giving notice to the Trustee and paying the final instalment in full.

SHARES

Following cleared payment of the final instalment and the transfer of shares by the Trustee, instalment receipt holders will become shareholders. A shareholder is free to sell his or her shares subject to compliance with Telstra's constitution, the Listing Rules and applicable laws (including laws relating to securities and takeovers) and continuation of an active trading market. Once the shares are quoted on

NZSX and ASX, shareholders may sell their shares on the exchange on which they are quoted.

Normal brokerage charges may be applicable to sales of instalment receipts and shares.

There are restrictions on the level of foreign ownership of Telstra. Further information is set out in section 5.13 of the Prospectus, 'Restrictions on foreign ownership', section 10 of the Prospectus Appendix, 'Description of shares and constitution', and section 13 of the Prospectus Appendix, 'Restrictions on foreign ownership'.

QUOTATION

Telstra and the Trustee have applied to NZX for permission to quote the instalment receipts and underlying shares on NZSX and all requirements of NZX relating thereto that can be complied with on or before the date of distribution of this Investment Statement have been duly complied with. An application will be made to ASX for official quotation of the instalment receipts within seven days after the date of issue of the Prospectus. The instalment receipts and shares will not be quoted on NYSE.

Neither NZX nor ASX accepts any responsibility for any statement in this Investment Statement or the Prospectus, or the investment to which they relate. Permission to quote the instalment receipts and shares on NZSX is not to be taken as an endorsement by either NZX or ASX of Telstra, the Commonwealth or the Offer.

At the date of this Investment Statement, there is no established market for the instalment receipts. However, both the Commonwealth and Telstra are of the opinion that a ready market will develop in the instalment receipts on NZSX and ASX.

ALLOCATIONS ARE CONDITIONAL

The contract formed on acceptance of an application by the Commonwealth is conditional on settlement under any International Purchase Agreement. While the International Purchase Agreement has not yet been executed, it is expected to include rights of termination. These would include the right of the purchasers to terminate the agreement upon, among other things, certain material adverse developments relating to Telstra, stock markets or banking systems. The International Purchase Agreement is expected to be signed on or about 18 November 2006. Until settlement under any International Purchase Agreement occurs and instalment receipts are issued, trading in instalment receipts on ASX and NZSX will be on a conditional basis. Conditional trading in instalment receipts is expected to commence on 20 November 2006. If settlement under any International Purchase Agreement and issue of the instalment receipts does not occur within ten business days after the commencement of conditional trading:

- instalment receipts will not be issued;
- the contract formed on acceptance of an investor's application will be cancelled;
- application monies will be refunded without interest; and
- all conditional trades that have occurred will be cancelled.

Trading in instalment receipts on NZSX will cease to be on a conditional basis upon settlement of the International Purchase Agreement. However, there will be a further period of deferred settlement trading on ASX until the dispatch of holding statements which is expected to occur by 30 November 2006.

It is your responsibility to determine your allocation before trading your instalment receipts to avoid the risk of selling instalment receipts you do not own. To assist you in determining your allocation prior to receipt of your transaction confirmation statement, the Commonwealth will announce the basis of allocation by placing advertisements in the major national and metropolitan newspapers in Australia. This is expected to take place by 20 November 2006. From that date, you may call the Telstra 3 Telephone Information Centre on 0800 699 019, or access the Telstra 3 Share Offer website at www.t3shareoffer.com.au to seek information on your allocation, quoting the reference number on your application form. If you sell instalment receipts before receiving confirmation of your allocation, you do so at your own risk.

If the Commonwealth elects in its discretion not to proceed with, and to withdraw, the Offer, then the Offer will be cancelled and all application moneys will be returned to applicants, without interest.

CSNS (COMMON SHAREHOLDER NUMBERS) AND FINs (FASTER IDENTIFICATION NUMBERS)

Current CSNs and FINs of investors who hold shares listed on NZX will apply to instalment receipts if quoted on the application form. If an investor does not have a CSN and a FIN they will be sent both numbers by mail from Link Market Services Limited within one week of the allocation of instalment receipts under the Offer.

3.9 Who do I contact with enquiries about my investment?

Enquiries about instalment receipts and shares can be directed to:

Investor Enquiries
Link Market Services Limited
Level 12, 120 Albert Street
PO Box 91976
Auckland 1010
New Zealand

Investor Enquiries: 0800 835 7872

lmse enquiries@linkmarketservices.com

3. Answers to important questions (continued)

3.10 Is there anyone to whom I can complain if I have problems with the investment?

Complaints about instalment receipts and shares can be directed to:

The Manager
Complaints Department
Link Market Services Limited
PO Box 91976
Auckland 1142
New Zealand

Investor Enquiries: 0800 835 7872

lmsenquiries@linkmarketservices.com

There is no ombudsman for this type of investment and therefore no complaints can be made to an ombudsman.

3.11 What other information can I obtain about this investment?

PROSPECTUS AND FINANCIAL STATEMENTS

Other information about the terms of the Offer, the instalment receipts, the shares, the Commonwealth and Telstra are contained or referred to in the Prospectus which accompanies this Investment Statement and which has been prepared and lodged with ASIC in accordance with Australian law. The most recent financial statements of Telstra and the 2006 Supplemental Information can be obtained, free of charge, from the investor section of the Telstra website at www.telstra.com.au/abouttelstra/investor or by calling the Telstra 3 Telephone Information Centre on 0800 699 019.

Further copies of the Prospectus, the Prospectus Appendix, and other documents of, or relating to, Telstra are available at the office of the Registrar of Companies, Ministry of Economic Development, Level 5, District Court Building, 3 Kingston Street, Auckland. The Companies Office may charge a fee for this service.

ELECTRONIC INVESTMENT STATEMENT AND PROSPECTUS

An electronic version of this Investment Statement accompanied by the Prospectus is available to investors to view and print from the Telstra 3 Share Offer website www.t3shareoffer.com.au. Investors cannot print application forms from the Telstra 3 Share Offer website. Application forms, which will be accompanied by this Investment Statement, are available by calling the Telstra 3 Telephone Information Centre on 0800 699 019.

The Offer constituted by this Investment Statement and Prospectus in electronic form is available only to residents of New Zealand accessing the Telstra 3 Share Offer website. It is not available to persons in the United States or US Persons. New Zealand investors who receive the Investment Statement in electronic form will also receive the Prospectus.

A paper copy of this Investment Statement and the Prospectus is available free of charge by calling the Telstra 3 Telephone Information Centre on 0800 699 019.

ANNUAL INFORMATION

Telstra is required to provide all shareholders and instalment receipt holders with annual reports, including annual audited financial statements.

Telstra will also be required to make half yearly and annual announcements to ASX and NZX, and such other announcements as are required by the Listing Rules from time to time.

ON REQUEST INFORMATION

Telstra and the Commonwealth will, within five working days of receiving a request from a New Zealand resident investor through the Telstra 3 Telephone Information Centre or otherwise, send or cause to be sent, without fee, to that offeree:

- a copy of the Investment Statement and Prospectus;
- a copy of the Prospectus Appendix;
- a copy of the Trust Deed;
- copies of any documents that, under the laws of Australia, must accompany any copy of the Prospectus sent to any person to whom an offer of the shares is made in Australia; and
- a copy of any document, or part of a document, lodged with ASIC that is incorporated by reference in the Prospectus under section 712 of the Corporations Act.

In addition to the information above, shareholders and instalment receipt holders may receive copies of the following information that may be requested under regulation 23A of the Securities Regulations 1983:

- a copy of the most recent annual report of Telstra, which includes a copy of the most recent financial statements of Telstra; and
- a copy of this Investment Statement (which is accompanied by the Prospectus).

Those documents will be provided free of charge. A request for those documents should be made at Telstra's office at TelstraClear Limited, Shed 39, 1 Hinemoa Street, PO Box 1271, Centreport, Wellington.

4. Additional information

Other Information

PRINCIPAL ASIC RELIEF

ASIC has granted confirmations, modifications and exemptions from the Corporations Act in relation to the Telstra 3 Share Offer. The principal instruments of relief granted by ASIC have the effect that:

- the instalment receipts may be offered under a prospectus (rather than a product disclosure statement) and generally treated as 'securities';
- a transaction specific prospectus may be issued in relation to the Offer;
- there is no exposure period in relation to the Offer;
- significant new developments in relation to Telstra and the Offer may be disclosed in newspaper advertisements and a copy of any supplementary prospectus will be made available during the Offer on the Telstra 3 Share Offer website;
- the Commonwealth and the Joint Global Coordinators may conduct aftermarket stabilisation activities in connection with the Offer (for further information see section 5.12 of the Prospectus, 'Over-allocation and market stabilisation');
- the Trustee is not required to comply with the requirements in the Corporations Act relating to the takeovers prohibition and the notification of substantial shareholdings in relation to interests in the Telstra shares held under the Trust Deed;
- the Trustee is not required to hold an Australian financial services license;
- a transfer of instalment receipts is governed by the transfer rules that normally apply to transfers of quoted securities and financial products;
- the Prospectus and the Prospectus Appendix may be issued in suitable alternative formats for print disabled individuals;
- advertising of the Offer may occur (in some cases, in a manner different from that required by the Corporations Act) and a telephone information centre and website may be operated (in each case, before and after lodgement of the Prospectus);
- the Commonwealth may undertake market research in relation to the Offer prior to lodgement of the Prospectus;
- members of the Commonwealth Parliament, the Commonwealth, Telstra and persons acting on behalf of Telstra or the Commonwealth may contribute to public discussion or understanding of the telecommunications industry, Telstra, the Offer and related matters;
- a takeover bid may only be made to acquire shares, rather than instalment receipts;

- bonus loyalty shares may be transferred to those entitled without the need for a further prospectus at that time or for updating of the Prospectus; and
- paperless FASTER transfers of instalment receipts can take place on the NZX.

PRINCIPAL ASX WAIVERS

ASX has granted waivers and confirmations to Telstra in relation to the Telstra 3 Share Offer:

- to facilitate quotation of the instalment receipts having regard to the size of the Offer;
- so that Telstra is not required to comply with the ASX Listing Rules (other than the continuous disclosure requirements) in relation to matters relating to instalment receipts which the Trustee has undertaken to ASX to comply with;
- to permit the implementation of the foreign ownership rules and related market notification obligations;
- to permit the implementation of the instalment receipt structure and to permit the Trustee not to be listed on ASX;
- so that Telstra is not required to quote on ASX Telstra shares held by the Future Fund while they remain subject to the escrow direction;
- so that Telstra is able to have in its constitution certain provisions relating to the Commonwealth and to comply with its obligations under the Telstra Corporation Act 1991 (Cth);
- to permit the timetables in connection with the listing on ASX of the instalment receipts and the payment of the final instalment;
- approving the instalment receipts and, following payment of the final instalment, the shares as approved short sale securities; and
- so that instalment receipts will be designated as equity securities.

SECURITIES ACT (AUSTRALIAN ISSUERS) EXEMPTION NOTICE 2002

In offering the shares in New Zealand, the Commonwealth and Telstra are relying on the Securities Act (Australian Issuers) Exemption Notice 2002 (Australian Issuers Exemption Notice). The following statements are included in this Investment Statement in accordance with the conditions of the Australian Issuers Exemption Notice:

- (a) the instalment receipts representing the shares must be allotted in the manner specified in the Prospectus and in the manner prescribed under the laws of Australia;
- (b) investors should satisfy themselves as to the tax implications of investing in the shares and instalment receipts;

4. Additional information (continued)

- (c) investing in the securities of an Australian issuer may carry with it a currency exchange risk;
- (d) the financial reporting requirements applying in New Zealand and those applying to Telstra (an Australian company) may be different and the financial statements of Telstra may not be compatible in all respects with financial statements prepared in accordance with New Zealand law;
- (e) Telstra may not be subject in all respects to New Zealand law;
- (f) although a copy of the Prospectus and other documents have been received by the Registrar of Companies, the Prospectus has not been registered in New Zealand under New Zealand law and may not contain all the information that a New Zealand registered prospectus is required to contain; and
- (g) it is not a condition of the Australian Issuers Exemption Notice that Telstra be listed on NZX and, if Telstra is not listed on NZX, New Zealand resident investors may not have access to information concerning Telstra in the same way as investors have in relation to an issuer listed on NZX.

This exemption relieves the Commonwealth and Telstra of the requirement to register a New Zealand prospectus in relation to the instalment receipts and the shares pursuant to the Securities Act and the Securities Regulations and the Commonwealth and Telstra are able, subject to certain conditions, to make the Offer in New Zealand pursuant to this Investment Statement.

SECURITIES ACT (TELSTRA 3 SHARE OFFER) EXEMPTION NOTICE 2006

The New Zealand Securities Commission has granted the Commonwealth and Telstra an exemption, subject to certain conditions, from:

- (a) Sections 33, 37, 37A and 53 to 54B of the Securities Act and from the Securities Regulations (except regulation 8) in respect of the instalment receipts. Subject to certain conditions, this exemption relieves the Commonwealth and Telstra from certain disclosure requirements in relation to the instalment receipts and in relation to the Commonwealth, as issuer of the instalment receipts, with the result that the disclosure in the Investment Statement is focused primarily on the shares and Telstra;
- (b) Section 37A(1)(b) of the Securities Act and from the Securities Regulations in respect of the Investment Statement. The effect of this exemption is that if any significant developments occur relevant to the Offer during the course of the Offer the Commonwealth and Telstra may, subject to certain conditions, advise investors and offerees of such developments by publishing newspaper advertisements in major New Zealand newspapers rather than distributing an amended investment statement to investors or offerees;
- (c) Regulation 7A(1) of the Securities Regulations in so far as that provision requires this Investment Statement to contain information about the Commonwealth as issuer of the instalment receipts; and
- (d) Sections 20 and 21 of the Securities Markets Act 1988 in respect of any relevant interest in the voting securities of Telstra that the Trustee may have as a result of acting as trustee under the Trust Deed.

AGREEMENT AS TO JURISDICTION

- (a) In respect of a dispute concerning the contract for the instalment receipts or shares, Telstra and the Commonwealth:
 - agree to submit to the non-exclusive jurisdiction of the New Zealand courts;
 - have instructed the New Zealand agent for service referred to in paragraph (c) below to accept service on behalf of Telstra and the Commonwealth; and
 - agree that this statement is an agreement with each investor for the purposes of section 389(1)(e) of the Companies Act 1993;
- (b) Despite the statements referred to in paragraph (a), the contract in respect of the shares may not always be enforceable in New Zealand courts; and
- (c) Gordon Wong, General Counsel and Company Secretary, whose address is TelstraClear Limited, Shed 39, 1 Hinemoa Street, PO Box 1271, Centreport, Wellington has been appointed by Telstra and the Commonwealth to accept service in New Zealand of any documents on their behalf.

5. Definitions

2006 Supplemental Information	Telstra's 2006 Supplemental Information (which is available on request, see the section 3.11 of this Investment Statement, 'What other information can I obtain about this investment?')
ABN AMRO Rothschild	a joint venture between ABN AMRO Equity Capital Markets Australia Limited (ABN 17 000 757 111) and Rothschild Australia Limited (ABN 61 008 591 768)
ACCC	Australian Competition and Consumer Commission
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited ACN 008 624 691
ASX Listing Rules	the ASX Listing Rules
bank draft	bank draft, in Australian dollars drawn on any registered bank in New Zealand
Board	the board of directors of Telstra
broker	any ASX participating organisation or NZX Firm
CDMA	Code Division Multiple Access – a mobile standard which provides voice, data, fax and short messaging services
CEO	Telstra's chief executive officer
Certain Institutional Investors	investors in the Institutional Offer for whom a minimum of 15% of the offer size before any over-allocations has been reserved, being: ▪ Telstra shareholders who place bids for amounts in excess of their Initial Allocation Benefit; ▪ other Institutional Investors who are not Telstra shareholders at the close of the Institutional Offer; ▪ investors subscribing under the Japanese POWL in excess of the POWL Minimum Guarantee; and ▪ Australian and New Zealand resident Retail Investors who participate in the Institutional Offer via broker-sponsored bids for amounts in excess of their Initial Allocation Benefit (if any)
CGT	capital gains tax
cheque	cheque, in Australian dollars drawn on an Australian branch of an Australian bank
Closing Date	closing date of the Retail Offer (expected to be 9 November 2006)
Commonwealth	the Commonwealth of Australia and where the context so permits, the Australian Government
Commonwealth's Business Adviser	Caliburn Partnership Pty Ltd
COO	Telstra's chief operating officer
Corporations Act	Corporations Act 2001 (Cth)
EBIT	earnings before interest and tax
Final Instalment Due Date	the date the final instalment is due (29 May 2008)

5. Definitions (continued)

Finance Minister	the Minister for Finance and Administration
Firm Offer	the invitation under this Investment Statement and the Prospectus to Australian and New Zealand resident Retail Investors who are clients of participating brokers and financial planners
Future Fund	the Future Fund Special Account and the investments of the Future Fund established under section 11 of the Future Fund Act 2006 (Cth) and described in section 2 of this Investment Statement, 'Future Fund' and in section 2.8 of the Prospectus, 'Future Fund Overview' and section 5.7 of the Prospectus, 'Future Fund'
Future Fund Board	the Future Fund Board of Guardians established under section 34 of the Future Fund Act 2006 (Cth) and described in section 2.8 of the Prospectus, 'Future Fund Overview' and section 5.7 of the Prospectus, 'Future Fund'
General Public Offer	the invitation under this Investment Statement and the Prospectus to Australian and New Zealand resident Retail Investors
Goldman Sachs JBWere	Goldman Sachs JBWere Pty Ltd
Initial Allocation Benefit	the allocation for Institutional Investors who are Telstra shareholders at the close of the Institutional Offer, based on the number of shares held as of the close of the Institutional Offer (adjusted for dealings up to that time – see section 5 of the Prospectus Appendix, 'Further information about the Institutional Offer'). Australian or New Zealand resident Retail Investors bidding via broker sponsored bids in the Institutional Offer also receive an Initial Allocation Benefit, but reduced by any shares they have applied for in the Shareholder Entitlement Offer
Instalment Receipt and Share Registrar	Link Market Securities Limited ACN 083 214 537
Institutional Investor	an investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which the Commonwealth and Telstra is willing to comply with), including persons to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus under section 708 of the Corporations Act provided that, if such Institutional Investor is in the United States, it must be a QIB
Institutional Offer	the invitation to Institutional Investors described in section 2.5 of the Prospectus, 'Institutional Offer'
Institutional Offering Memorandum	the offer document under which the Institutional Offer to certain Institutional Investors in jurisdictions other than Australia, New Zealand and Japan will be conducted
Institutional Selling Syndicate	ABN AMRO Rothschild; Goldman Sachs JBWere Pty Ltd; UBS AG, Australia Branch; Citigroup Global Markets Pty Limited; Credit Suisse (Australia) Limited; Daiwa Securities SMBC Europe Limited; J.P. Morgan Australia Limited; Lehman Brothers Inc.; Morgan Stanley Dean Witter; Commonwealth Securities Limited; and RBC Capital Markets
International Purchase Agreement	an international purchase agreement between the Commonwealth, Telstra and the Joint Global Coordinators, as representatives of the purchasers, expected to be dated on or around 18 November 2006
Investment Statement	this investment statement in terms of the Securities Act dated 9 October 2006 under which the New Zealand Offer will be made
Joint Global Coordinators	ABN AMRO Rothschild, Goldman Sachs JBWere and UBS

Listing Rules	the listing rules of ASX and the listing rules of NZSX applicable to Overseas Listed Issuers (as defined in NZX Listing Rules)
New Zealand Offer	the part of the Telstra 3 Share Offer made to New Zealand resident investors
NYSE	New York Stock Exchange
NZSX	the main board equity security market operated by NZX
NZX	New Zealand Exchange Limited
NZX Firm	a Market Participant as defined in section 1 of the NZX Participant Rules
Offer or Telstra 3 Share Offer	the Offer comprises the Retail Offer and the Institutional Offer
Over-allocation Option	the option to over-allocate up to 15% of the base offer size (that is, the offer size before and over-allocations) to Institutional Investors under the Institutional Offer (see section 5.12 of the Prospectus, 'Over-allocation and market stabilisation')
POWL	a public offer without listing in Japan
POWL Minimum Guarantee	a minimum total number of shares that may be reserved for Japanese investors subscribing under the POWL
Prospectus	the Australian prospectus (including the Prospectus Appendix) dated 9 October 2006 relating to the Offer to Australian resident investors
Prospectus Appendix	the appendix to the Prospectus, lodged with ASIC on 9 October 2006 (which is available on request, see the section 3.11 of this Investment Statement, 'What other information can I obtain about this investment?')
Record Date	13 October 2006
Retail Investor	an investor who is not an Institutional Investor
Retail Lead Managers	ABN AMRO Morgans; Bell Potter Securities Limited; Citigroup Wealth Advisors Pty Limited; Commonwealth Securities Limited; ETRADE Australia Securities Limited; Goldman Sachs JB Were Pty Ltd; Ord Minnett Limited; Pattersons Securities Limited; SHAW Stockbroking Ltd; UBS Wealth Management Australia Ltd and Wilson HTM Limited (and will in New Zealand also include ABN AMRO Craigs Limited, Goldman Sachs JBWere (NZ) Limited, Forsyth Barr Limited, ASB Securities Limited and Direct Broking Limited)
Retail Offer	the invitation to Retail Investors under this Investment Statement and the Prospectus, as applicable, comprising the Shareholder Entitlement Offer, the Firm Offer and the General Public Offer
Securities Act	the New Zealand Securities Act 1978
Securities Regulations	the New Zealand Securities Regulations 1983
Shareholder Entitlement Offer	the entitlement under this Investment Statement and the Prospectus for New Zealand and Australian resident Retail Investors who are Telstra shareholders at the close of business on the Record Date to receive a guaranteed allocation determined by the number of shares held by the investor subject to a minimum and maximum entitlement. A similar benefit, the Initial Allocation Benefit, will also form part of the Institutional Offer.

5. Definitions (continued)

SSS	spectrum sharing service allows an access seeker to supply broadband services to customers while the access provider supplies voice services to the customer
Telstra	Telstra Corporation Limited (ACN 051 775 556) and/or its controlled entities
Telstra 3 Share Offer or Offer	the offer comprises the Retail Offer and the Institutional Offer
Treasurer	the Treasurer of the Commonwealth of Australia
Trust Deed	the Trust Deed dated on or about 8 October 2006 between the Commonwealth and the Trustee
Trustee	Telstra Sale Company Limited (ABN 82 121 986 187)
UBS	UBS AG, Australia Branch
ULLS	Unconditioned or Unbundled Local Loop Service– the Local Loop is the copper wire that connects the Telstra exchange in your area to your premises. Telstra is required to provide access to this wire to other operators. 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 Local Loop.
US Person	'US Person' as defined in Regulation S of the US Securities Act
US Securities Act	United States Securities Act 1933, as amended

6. Directory

THE COMMONWEALTH OF AUSTRALIA

Department of Finance and Administration
John Gorton Building
King Edward Terrace
Parkes ACT 2600
Australia

TELSTRA CORPORATION LIMITED

ACN 051 775 556
Level 41
242 Exhibition Street
Melbourne VIC 3000
Australia
Company Secretary: Douglas Gration

DIRECTORS OF TELSTRA

Donald G McGauchie
Solomon Trujillo
Belinda J Hutchinson
Catherine B Livingstone
Charles Macek
John W Stocker
Peter Willcox
John D Zeglis

JOINT GLOBAL COORDINATORS

ABN AMRO Rothschild
Level 32, Vero Centre
48 Shortland Street
Auckland 1030

Goldman Sachs JBWere Pty Ltd
Level 38, Vero Centre
48 Shortland Street
Auckland 1030

UBS AG, Australian Branch
c/- UBS New Zealand Limited
Level 17, PricewaterhouseCoopers Tower
188 Quay Street
Auckland 1030

RETAIL LEAD MANAGERS IN NEW ZEALAND

ABN AMRO Craigs Limited
ABN AMRO Craigs House
158 Cameron Road
PO Box 13155
Tauranga

ASB Securities Limited
Level 13, ASB Centre
135 Albert Street
Auckland 1015

Direct Broking Limited
Level 2, Dorchester House
142 Broadway
Newmarket
Auckland

Forsyth Barr Limited
Level 9, Forsyth Barr House
The Octagon
Private Bag 1999
Dunedin 9016

Goldman Sachs JBWere (NZ) Limited
Level 38, Vero Centre
48 Shortland Street
Auckland

LEGAL ADVISER TO THE OFFER IN NEW ZEALAND

Bell Gully
Level 22, Vero Centre
48 Shortland Street
Auckland 1030

INSTALMENT RECEIPT AND SHARE REGISTRAR

Link Market Services Limited
Level 12, 120 Albert Street
Auckland 1010

TRUSTEE

Telstra Sale Company Limited
c/- Maxim Chartered Accountants
6 Oxley Street
Griffith ACT 2603
Australia

Application Instructions

To complete your application form correctly, follow the steps below and the detailed instructions on 'How to complete your application form' overleaf.

Step 1 Have you used the correct application form?

Step 2 Have you completed the application form in accordance with the instructions? In particular:

- Have you applied for at least 500 shares and in multiples of 50 thereafter?
- Have you completed your contact details?
- Have you signed the form?

Step 3 Is the cheque(s) or bank draft(s) payable for the total amount of the first instalment in Australian dollars (A\$)?

Step 4 Have you recorded your reference number¹ on the back of your cheque(s)/bank draft(s)?

Step 5 Have you lodged your application form correctly and sent it to the correct address?

Remember to lodge your application so that it is received by 4.00pm New Zealand time on the Closing Date. The Closing Date is Thursday 9 November 2006.

STEP 1 WHICH FORM SHOULD I USE?

The following table summarises which application forms New Zealand applicants should use.

These applicants...	Should use this application form...	To get your...
Telstra shareholders at the Record Date	Purple personalised application form	1 for 2 shareholder entitlement, including a minimum guaranteed entitlement of 3,000 shares and subject to a maximum shareholder entitlement of 200,000 shares
General Public Offer applicants	Yellow application form attached to this Investment Statement	Guaranteed allocation of 2,000 shares
Firm Offer Applicants	You should apply in accordance with instructions received from the broker from whom you received your firm allocation	

STEP 2 COMPLETE THE FORM IN ACCORDANCE WITH INSTRUCTIONS

To complete your application form correctly, follow the detailed instructions on 'How to complete your application form' overleaf.

Photocopies of the form will not be accepted. Please write clearly in BLOCK LETTERS using black ink.

Do not write outside the white boxes.

Changes to the personalised details on the forms will not be permitted.

Please ensure you record your contact details in case you need to be contacted regarding your application.

STEP 3 PAY THE FIRST INSTALMENT AMOUNT

Multiply the number of shares you are applying for by the first instalment price (A\$2.10) which gives the total amount payable for the first instalment. The Ready Reckoner on page 41 may assist you in calculating the correct payment amount.

Make your cheque/bank draft payable to 'Telstra 3 Share Offer' for the total amount of the first instalment. This should be the amount you entered on the application form.

Cheques must be in Australian dollars drawn on an Australian bank account, crossed 'Not Negotiable'. Bank drafts must be in Australian dollars drawn on any registered bank in New Zealand. Please ensure sufficient cleared funds are held in your account as your cheque will be banked as soon as it is received.

Insert your cheque/bank draft details in the space provided on the reverse side of the tear-off form.

¹ 11 digit number found on the top right hand corner of your personalised application form.

STEP 4 RECORD YOUR REFERENCE NUMBER

Record your reference number on the back of your cheque/bank draft, which is found in the top right corner of the application form. You should also keep a separate record of your reference number in case you wish to check on the status of your application during the offer period, or your final allocation of shares via the Telstra 3 Telephone Information Centre or the Telstra 3 Share Offer website.

STEP 5 LODGING YOUR APPLICATION

Firm Offer applicants

Applicants who have received a firm allocation of shares from their broker should follow the lodgement and payment procedures provided by that broker. In particular note that these applications are required to be made payable to and delivered to your broker. Please contact your broker if you have any questions in relation to your firm allocation.

Personalised purple application forms

IMPORTANT: YOU MUST DETACH THE TEAR OFF APPLICATION FORM

Place the tear-off application form and cheque(s)/bank draft(s) in the reply paid envelope provided. Retain the top portion of the page for your records.

Non-personalised yellow application forms

IMPORTANT: DO NOT DETACH THE LOWER PORTION OF THE

APPLICATION FORM Place the whole application form in the reply paid envelope provided.

You must lodge your application so that it is received by 4pm New Zealand time on 9 November 2006, by either:

- Mailing it in the reply paid envelope provided. If you do not have a reply paid envelope, you should send your completed application form and cheque/bank draft to the following address:

Telstra 3 Share Offer
PO Box 90219
Auckland Mail Centre
Auckland 1142

Please allow sufficient time for postal delivery; or

- Lodging with any NZX Firm

FURTHER ASSISTANCE

If you need help to complete the application form:

- Contact a broker or financial adviser
- Phone the Telstra 3 Telephone Information Centre on 0800 699 019
- Visit the Telstra 3 Share Offer website: www.t3shareoffer.com.au

READY RECKONER FOR FIRST INSTALMENT – FOR EXAMPLE 1,000 SHARES @ A\$2.10 PER SHARE = A\$2,100

This Ready Reckoner will help you calculate the money you need to pay for the first instalment at A\$2.10 per share.

Shares	Amount	Shares	Amount	Shares	Amount
500	A\$1,050	2,000	A\$4,200	10,000	A\$21,000
750	A\$1,575	3,000	A\$6,300	50,000	A\$105,000
1,000	A\$2,100	5,000	A\$10,500	100,000	A\$210,000

Record your reference number(s) here:

How to complete your application form

These instructions are cross-referenced to each section of the application form. Please complete all relevant sections of the application form in BLOCK LETTERS using black ink. Photocopies of the form will not be accepted. Do not write outside the white boxes. Please ensure you complete the correct form.

DETAILED INSTRUCTIONS FOR APPLICANTS COMPLETING THE YELLOW NON-PERSONALISED GENERAL PUBLIC APPLICATION FORM

A Enter the total amount payable for the first instalment. This is calculated by multiplying the number of shares for which you are applying by the first instalment amount per share of A\$2.10. The minimum number of shares you may apply for is 500, and in multiples of 50 shares thereafter. Applications can be for up to a maximum of 200,000 shares. Be sure that your cheque(s)/bank draft(s) total this amount. You may wish to use the Ready Reckoner on page 41 to help calculate the amount payable for the first instalment. The purchase price for shares is payable in two instalments. This payment is for the first instalment only. Be sure that your cheque(s)/bank draft(s) total this amount.

B Enter personal details You can complete this form as an individual in your own capacity, or as a joint applicant with one or two other individuals (this would represent one application).

You can also complete this form on behalf of a company or a person under the age of 18, as trustee of a trust or superannuation fund or as executor of an estate or partnership (or, if the trustee, executor or partner is a company, on behalf of that company). An authorised office bearer may apply on behalf of a club or incorporated body.

You should refer to the table overleaf for instructions on how to fill out the applicant's name(s) on the application form.

C Enter address details You must use a New Zealand address. If you are making a joint application, the address should be that of the first person named on the form. All further correspondence will be mailed to this address.

D Common Shareholder Number (CSN) If you have a current CSN write the number here.

Lower Portion of Application Form

Contact Details. Clearly write your name in BLOCK LETTERS and provide a daytime contact telephone number including your STD area code.

Record your total payment. This should be the same as the amount shown in Box A.

Signatures. Please sign on the reverse of the application form where indicated.

Recording your cheque/bank draft details. Please record your cheque(s)/bank draft(s) details in the table provided on the reverse side of the application form. Make your cheques payable to 'Telstra 3 Share Offer' in Australian dollars (A\$) drawn on an Australian bank account, crossed 'Not Negotiable'. Bank drafts must be in Australian dollars (A\$) drawn on any registered bank in New Zealand.

Recording your reference number. Write your reference number on the back of your cheque(s)/bank draft(s) and on page 41 in the space provided.

DETAILED INSTRUCTIONS FOR APPLICANTS COMPLETING THE PERSONALISED PURPLE APPLICATION FORM

If you are a current Telstra shareholder you should have received a purple personalised application form. All your personalised details have already been recorded on the application form. To complete the application form please follow the instructions below.

1 Enter the total number of shares you wish to apply for
All applicants: The minimum number of shares you may apply for is 500, and in multiples of 50 thereafter. Applications can be for up to a maximum of 200,000 shares. Listed on the form will be your entitlement to shares. You may apply for more or less shares than your shareholder entitlement. If you apply for more shares than your shareholder entitlement you will be allocated at least the amount of your shareholder entitlement if applications need to be scaled back. Shareholder entitlements are subject to a maximum guaranteed entitlement of 200,000 shares. If your Telstra shareholding in Telstra changed between Friday 15 September 2006 and Friday 13 October 2006, your entitlement may vary from what is shown.

2 Enter the total amount payable for the first instalment. This is calculated as the number of shares applied for multiplied by the first instalment amount per share of A\$2.10. Be sure that your cheque(s)/bank draft(s) total this amount. Use the Ready Reckoner below to help calculate the correct amount payable for the first instalment. The purchase price of shares is payable in two instalments. This payment is for the first instalment only.

Tear Off Application Form

Contact Details. Clearly write your name in BLOCK LETTERS and provide a daytime contact telephone number including your area code.

Record your total payment. This must equal the amount shown in Box 2.

Signatures. Please sign on the reverse of the tear-off application form where indicated.

Recording your cheque/bank draft details. Please record your cheque(s)/bank draft(s) details in the table provided on the reverse side of the tear-off application form. Make any cheques payable to 'Telstra 3 Share Offer' in Australian dollars (A\$) drawn on an Australian bank account, crossed 'Not Negotiable'. Bank drafts must be in Australian dollars (A\$) drawn on any registered bank in New Zealand.

Recording your reference number. Write your reference number on the back of your cheque(s)/bank draft(s) and on page 41 in the space provided.

HOW TO FILL OUT YOUR NAME(S) ON THE APPLICATION FORM

Use <> brackets and the letters A/C where indicated. If applicable, and you wish to apply for the shares using your CSN, you must write your name in EXACTLY THE SAME FORMAT as it appears on the registration details held under that CSN.

TYPE OF INVESTOR	CORRECT FORM OF REGISTRATION	INCORRECT FORM OF REGISTRATION
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co
Joint Application Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s) with an appropriate designation	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s) with an appropriate designation	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names with an appropriate designation	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s) with an appropriate designation	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund with an appropriate designation	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section B on the Application Form.

EXAMPLES OF HOW TO COMPLETE YOUR PERSONAL DETAILS

INDIVIDUAL

ENTER PERSONAL DETAILS

3

EDWARDS

Applicant 1 - Last Name/Company Name

MRS

KATHERINE

CLARE

TitleFirst NameMiddle Name

JOINT (WITH ONE OR TWO OTHERS)

ENTER PERSONAL DETAILS

B

TRANCHE

Applicant 1 - Last Name/Company Name

MR

PETER

PAUL

TitleFirst NameMiddle Name

TRANCHE

Joint Applicant 2 - Last Name

MS

MARY

ORLANDO

TitleFirst NameMiddle Name

COMPANY

ENTER PERSONAL DETAILS

P

LIZ BIZ PTY LTD

Applicant 1 - Last Name/Company Name

EXAMPLES OF USE OF <DESIGNATED ACCOUNT>

TRUST

ENTER PERSONAL DETAILS

B

SMITH

Applicant 1 - Last Name/Company Name

MRS

ALESSANDRA

HERBERT

TitleFirst NameMiddle Name

Joint Applicant 2 - Last Name

TitleFirst NameMiddle Name

<

ALESSANDRA SMITH A/C

>

Designated account e.g. <Super Funds> (or Joint Applicant 3)

MINOR

ENTER PERSONAL DETAILS

B

HAMILTON

Applicant 1 - Last Name/Company Name

MRS

SALLY

TitleFirst NameMiddle Name

Joint Applicant 2 - Last Name

TitleFirst NameMiddle Name

<

HENRY HAMILTON

>

Designated account e.g. <Super Funds> (or Joint Applicant 3)



TELSTRA 3
SHARE OFFER