1 November 2007

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Shareholder Letter
Telstra's transformation: second anniversary update

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

Yours sincerely

Claire Elliott
Acting Company Secretary

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Telstra Corporation Limited
ABN 33 051 775 556

1 November 2007

Telstra's transformation: second anniversary update

Dear Shareholder

It is my pleasure to write to you to share the progress we charted at today's Investor Day about Telstra's transformation into a world-class integrated media-comms company. Two years have passed since we launched our five-year transformation strategy. I am happy to report the strategy is delivering significant improvements across all areas of the business leading to an **upgrade** in our financial guidance.

When the new management team and I first started in July 2005, we immediately set about reviewing all parts of the business. We left no stone unturned. The potential for improved performance was in the business but we needed to unlock it. We did that in November 2005 when we released our plan for Telstra – and Australia. This plan required significant investment upfront because the scale and scope of the Telstra transformation are unparalleled amongst telecommunication companies around the world. It is not just about building networks or IT systems or launching new products. It is a comprehensive plan that includes all of these, plus more, so we can create value for both our customers and shareholders.

I am pleased to report that Telstra's transformation has already won several international awards as the world takes notice of our strategic direction and growing list of achievements. These awards are an acknowledgment of the hard work and dedication of everyone at Telstra. I have included our transformation achievements in the attached report titled ***Creating the Competitive Advantage: Progress Report on Telstra's Transformation 2007.*** Here are some highlights:

- **Release 1.0, the first phase of our IT transformation, was turned on last weekend and is now in production, 2 months ahead of schedule.** This important milestone will provide new IT capabilities that will reduce complexity for our people and lead to further improvements in customer service and employee productivity as phased customer migration occurs.
- **Retail innovations are revolutionising the way customers experience new technologies.** Yesterday, we started the retail revolution when we opened our new interactive T[life]™ retail store in Sydney. We also opened the state-of-the-art Telstra Experience Centre where business and government customers can get **hands-on experience** using Telstra's world-class technologies.
- **Next G™ network coverage is now the same as or better than that offered by the old CDMA network.** The Next G™ network covers 25% more territory than the published coverage of the CDMA network, has nearly 75% more towers, and offers speeds up to five times faster – in fact speeds not exceeded anywhere in the world.
- **Innovation and expansion marks our product and services portfolio.** This includes a new Next G™ Country Phone™ for our regional and rural customers and important BigPond Web 2.0 initiatives launched today. It follows September's increase in the speed of mobile broadband services across Australia to 7.2Mbps (peak speed).
- **Fixed-line broadband upgrade to 30Mbps switched on.** We have upgraded our hybrid fibre-coaxial (HFC) broadband network to 30Mbps in Melbourne and Sydney, covering 1.8 million Australian homes and businesses. **Telstra now offers the fastest fixed and mobile broadband networks in Australia.**

As might be expected, the **benefits of the transformation** are starting to flow through to our operational and financial performance as noted at the 2007 full year results in August. After two years of significant investment, our **peak capital spending years are now behind us** and both our earnings and margins are expected to steadily improve in the coming years.

Our operational **momentum identified at the full year results has continued** into the first quarter of the 2008 financial year. A further 500,000 customers have been added to Next G™ and now 1.5 million Australians are enjoying the benefits of using Australia's largest and fastest national mobile broadband network. Telstra's 3G customers now total 2.5 million, or around 27% of our total mobile customers – up 5 percentage points in the September quarter. Our PSTN retail customers grew 33,000 in the quarter representing our 5th consecutive month of positive PSTN retail customer growth.

Financial outlook

I am pleased to report that we have **upgraded our 2008 earnings guidance.** When we issued our 2008 financial outlook in August there were two unknown factors in terms of financial impact: (1) the Broadband Connect funding for SingTel / OPEL, and (2) the impact of ACCC decisions to lower regulated wholesale prices for accessing Telstra's copper network – called unconditioned local loop (ULL) and line spectrum sharing (LSS). We now know more. While the SingTel / OPEL agreement has been signed there are no signs that there will be a material impact this financial year. The lower ULL and LSS rates are negatively impacting wholesale revenue but retail broadband sales remain strong. As a result we have upgraded our reported guidance to:

- earnings before interest tax depreciation and amortisation (EBITDA) growth in the range of +3.0% to +4.0% (up from +2.0% to +3.0%); and
- earnings before interest and tax (EBIT) growth in the range of +5.0% to +7.0% (up from +3.0% to +5.0%). This includes a partner distribution received from FOXTEL of $100 million.

The remainder of our 2008 guidance remains unchanged.

We have also **upgraded our revenue and EBITDA** long term management objectives for the 2005-2010 period. We now expect revenue growth of between +2.5% to +3.0% pa (up from +2.0% to +2.5%) and EBITDA growth of between +2.5% to +3.0% pa (up from +2.0% to 2.5%).

The benefits of the transformation will continue to flow through to our bottom line as we grow our revenue and reduce our costs. We have identified a range of initiatives across all areas of the business that are expected to **reduce costs by $500 to $700 million** over the next three years.

The transformation will allow us to **more than double our free cash flow** from $2.9 billion in 2007 to over $6 billion in 2010. Our free cash flow target will allow the Board the opportunity to increase shareholder returns whilst retaining the balance sheet flexibility for value-creating investment, both organic and via acquisition, if opportunities should arise.

What's next...

Our market-based management (MBM) strategy is delivering real value to our customers and increasing productivity for our staff. We are innovating and leveraging our integrated suite of assets to offer customers differentiated products and services. We are using our customer knowledge to personalise the customer experience across our segments. We are delivering record service levels across more key metrics. Our IT transformation will play an important part in delivering further customer service improvements as we reduce the system complexity starting with the customer care, billing and product management systems.

We have world-class suppliers working with our talented people to deliver systems capable of taking Telstra into the media-comms future. The first release of our IT systems is now operating and we are now working on a phased consumer customer migration. The more complex Release 2.0 will go into production by the end of the 2008 calendar year.

We still have a lot more work to do but I know the management and employees at Telstra are committed to delivering on the vision and promises I set forth in November 2005. We are well on our way to becoming a world-class media-comms company.

For further information on today's market briefing, please visit our Investor Relations website at ***www.telstra.com.au/abouttelstra/investor***, or send any questions or comments to ***investor.relations@team.telstra.com***.

Yours sincerely

Solomon D. Trujillo
Chief Executive Officer

Creating the Competitive Advantage: Progress Report on Telstra's Transformation 2007.

In just two years, **Telstra's transformation** has turned around declining operational and financial performance. We are now winning new customers with innovative products and services across our key strategic battlegrounds: mobile, broadband, Sensis and PSTN retention. Our transformation is enabling us to generate new revenue streams across our next generation networks and helping build a scalable low-cost operational base. This will ultimately lead to the creation of long-term shareholder value.

Peak transformation expenditure years now behind us - financial turnaround started

The scale and scope of the transformation has required significant investment upfront. The initial financial pain is now behind us and, as we continue to grow revenue and take out costs, our earnings and margins will improve. Our performance momentum is being shaped by:

- **Next G™ simplicity, coverage, speed and content** is driving continued customer and mobile data revenue growth;
- **BigPond® innovations and content** are driving retail broadband customer and usage growth, which is translating into increased market share and revenues;
- **PSTN (fixed line) revenue decline continues to slow** and we continue to add retail lines as we defend our traditional revenues and defy global trends of our incumbent peers;
- **Transformation is driving early cost savings**. Since starting the transformation we have exited 65 property leases, saving around $34 million annually. We are rationalising our property sites in Brisbane and Clayton in Melbourne, with further savings to flow.

As a sign the financial turnaround has started, we upgraded earnings guidance for the 2008 financial year. We also increased our revenue and earnings before interest tax depreciation and amortisation (EBITDA) outlined in our long term management objectives for the 2005-2010 period.

Next G™ mobile broadband network - coverage and speed increases

We have continued to invest in the Next G™ national 3G 850MHz mobile broadband network since it was launched in October last year. Our 1.5 million Next G™ customers are enjoying the fastest speeds and greatest breadth and depth of coverage of any mobile network in Australia.

- In February we **upgraded the peak network speeds** from 3.6Mbps to 14.4Mbps, becoming the first operator in the world to provide peak network speeds of 14.4Mbps;
- **Extended the network base station range** up to 200km at selected sites. This is an increase of 120km since the launch of the Next G™ network and the network now covers more than 98.9% of the Australian population;
- In September we **upgraded the peak network speeds of mobile broadband services** in Australia with the launch of new data cards for office and home laptops. Called "turbo cards," the new data cards will deliver download speeds bursting up to 6Mbps and, for the first time, also boast super-fast upload speeds bursting up to 1.3Mbps;
- The Next G™ **device range continued to grow**, with the Nokia 6120 Classic added to the already impressive device range – there are nearly 30 handsets available on the Next G™ network, including the new Next G™ Country Phone™ launched today;
- **Doubled the channels available on Mobile FOXTEL** from 16 to 33 channels, including 19 channels exclusive to Telstra customers, and introduced new pricing options.

Delivering fast mobile broadband services to the bush.

Over the past four months we have driven more than 120,000 kilometres around Australia testing the Next G™ network coverage. The Next G™ network now offers the same or better coverage as the ageing CDMA network that is scheduled to be shut down on 28th January 2008.

Extending fixed-line broadband reach across the country

- **HFC cable upgraded** as part of our plan to broadband Australia. In September, we launched BigPond Cable Extreme® at up to 30Mbps to more than 1.8 million Sydney and Melbourne homes and businesses.
- **ADSL2+** has been rolled out to more than 460 exchanges, which is around two and half times the ADSL2+ coverage of our nearest competitor.

Moving to an Internet Protocol (IP) core network – reducing network operating costs

We launched one of the largest fully integrated (both fixed and mobile) national IP networks in the world in April, called the Telstra Next IP™ network. This represents the next generation of IP networks and will reduce network complexity across our core network, allow remote testing and network fixes, and the greater software defined applications and services will lead to fewer truck rolls. **This translates into lower costs to operate the network.**

Market-based management – delivering revenue and customer experience improvements

Our customer segmentation across our retail businesses continues to deliver results. We understand our customers' needs and preferences better than any other operator in Australia. Market-based management (MBM) drives everything we do ranging from the way we are organised to the words we use in every customer interaction. Our sales success rate has doubled. In quarter 4 2006 we achieved an 8% strike rate on 5 million outbound customer contacts and **one year later we doubled** our strike rate to 16% based on 6 million customer contacts. Our MBM is the jewel in our crown and is delivering improved customer acquisition, retention and productivity.

Customer service improvements continue

Since starting the transformation in November 2005 our network and service levels have improved:

- The **backlog of ADSL (broadband) unsatisfied orders is down more than 90%** to around 2,000 and PSTN (fixed line) held orders are down by over 50%;
- **Field workforce productivity is up more than 20%** since January 2006, and through our Field Workforce of the Future program our technicians are getting the job done right the first time with a 28% reduction in field revisits;
- **Cost of activation is down more than 22%** as we introduce more customer service auto activation, and our Workforce Excellence program is delivering scheduling improvements.

Recognising and investing in our people

- Since opening the Telstra Learning Academy in August last year we have trained more than 16,000 staff, and earlier this year, we opened two new purpose-designed learning facilities in Melbourne and Sydney.
- We have strengthened internal talent within the organisation with internal promotions based on merit, ability, performance and recognition of our own home-grown, world-class leaders of tomorrow.

Media-comms evolution gathers pace

Our integration is the key differentiator. We have the telecommunication networks, distribution channels and integrated portfolio of media communication assets – including BigPond, Sensis and Foxtel - to deliver on our media-comms vision. We are creating a content factory and offer exclusive content through BigPond.

Telstra is changing the game. Our journey is well along the way, and our progress is measured by results. We are all about putting customers at the centre and giving them the things they need to live their lives and operate their businesses. Customers are choosing the 'Next' generation of integrated technologies, solutions, content and capabilities. We will keep responding to our customers by differentiating and offering value and excellence.

Telecommunications
a major agenda item for

Election 2007

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Authorised by J Mitchell, Telstra, 231 Elizabeth Street, Sydney, 2000
Printed by Ducor Australia Pty Ltd ABN 52 004 492 237

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