



7 November 2007

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Chairman, Chief Executive Officer and Remuneration Chair presentations

In accordance with Listing Rule 3.13.3, I enclose the presentations of the Chairman, CEO and Remuneration Chair, which will be delivered today at the Telstra Corporation Limited 2007 Annual General Meeting.

Regards

A handwritten signature in black ink, appearing to read "C. Elliott".

Claire Elliott
Acting Company Secretary

TELSTRA ANNUAL GENERAL MEETING 2007

MR DONALD McGAUCHIE, CHAIRMAN, ADDRESS TO SHAREHOLDERS

Introduction

Good morning ladies and gentlemen,

I'm Donald McGauchie, the Chairman of your company.

I welcome you to the 2007 Annual General Meeting.

I also welcome shareholders viewing today's proceedings on our Investor Relations website.

A quorum is present and I declare this Meeting open.

Let me start by introducing the Board members, senior executives and the company's auditor.

Joining me on the stage are:

John Stanhope, our Chief Financial Officer

Sol Trujillo, our CEO

Will Irving, our Group General Counsel.

Will Irving joins us on the stage today as our Company Secretary Carmel Mulhern is currently on maternity leave. Our Acting Company Secretary Claire Elliott is on hand in the Auditorium if required.

In the front row, we have my fellow directors:

Geoffrey Cousins

Belinda Hutchinson,

Catherine Livingstone,

Charles Macek,

John Stocker,

Peter Willcox and

John Zeglis.

As Belinda will be retiring at the conclusion of this meeting, I would like to take this opportunity to thank Belinda Hutchinson for her very significant contribution to the Board and the company over her 6 year tenure.

Belinda has made the decision to change her work life balance and to create more time for her philanthropic endeavours. Thank you Belinda and we wish you well for the future.

I would also like to mention and welcome Telstra's Executive Leadership Team seated in the front row.

I would like to thank them for their exceptional efforts in the last year.

Sol, his team and all Telstra employees have been doing a remarkable job – and Sol has set an extraordinary leadership standard for everyone.

Welcome also to Craig Boyhan and Sean Van Gorp from Ernst & Young, our external auditors.

I'll now outline the procedure for today's meeting. There are six items of business on today's agenda:

1. Chairman and CEO's presentations
2. Remuneration Report
3. Discussion of Financial Statements and reports
4. Appointment of the Auditor
5. Resolution to Increase the Directors' fee pool.

With regard to item 6, there will be no election or re-election of directors.

In accordance with the Company's constitution, Ms Belinda Hutchinson retires by rotation and, as I have mentioned, Belinda is not seeking re-election. The Company did not receive any other nominations for election as a director.

Following Charles' address on executive remuneration and the Directors' fees I will move to answer questions submitted by shareholders in advance of the meeting. I will then take questions from the floor on the operations and performance of the company, the remuneration report and each of the other items of business before the meeting.

Before I formally close the meeting, I will make some comments on the vote on the Remuneration Report.

So that we can represent the views of all shareholders including those who have lodged proxies, I will call a poll in relation to Items 2, 4 and 5.

No resolution is required in relation to Item 3.

I will open the poll now so that shareholders who need to leave the meeting early have the opportunity to vote on these items by completing the voting section on the reverse of your orange shareholder card and placing it in one of the ballot boxes near the exits to this room.

Instalment Receipt holders would have received a green card which does not contain a voting section. As notified with your notice of meeting, IR holders voted by means of a direction form lodged prior to the meeting. If you have any queries regarding your instalment receipts please speak to the Share Registry staff. There is also a leaflet available to explain IR holder rights.

This annual meeting is our forum - the shareholders' forum - to discuss the performance and future of your company.

In the interests of the comfort of shareholders we will have light refreshments available in the foyer around 11.30am.

We invite your comments on improvements for future Annual General Meetings. Shareholders received a questionnaire at registration.

I invite you to complete it and place it in the questionnaire boxes when you leave.

Board Overview

This time last year some were questioning whether or not T3 would be a success. It certainly was. Thanks to the efforts of all involved, particularly Sol and the management team – who even by then, with performances such as the build of the Next G network, had established the momentum of the company.

At both the 2005 AGM and the 2006 AGM, your board made a commitment that working with management - we would overhaul the corporation and transform Telstra into a world-class media and communications company. We said that we would drive its performance to meet or better international peers.

I am pleased to be able to stand before you today and say after two very busy years since November 2005, we are now achieving or bettering international performance levels in many parts of the business and we are well on our way with the rest of the business.

We have made extraordinary progress – progress that has been recognised around the world. And we are focussed on the future – with a never-ending drive for excellence and a commitment that we will keep delivering on our promises to you.

As we announced at our annual results briefing in August and again at our Investor Day last week, the fundamentals – the building blocks of the business are strong again. We will build on this strength. We will continue to improve on our products and service offerings.

We are inviting our customers to ‘imagine the possibilities’. We are working to ensure we deliver them.

Sol will take you through the operational highlights and what we plan to deliver in the year ahead.

I would like to share with you the very significant achievements of the past year.

I would like to once again put the scale of the transformation into context - no one should be in any doubt - Telstra's ongoing transformation is the most comprehensive change program undertaken by any of the world's major telcos.

Two years ago when we announced the strategy, and laid out in detail the key milestones that we would meet to achieve it, there were a number of people who openly doubted it could be done – indeed some who bet against us.

Well it has been done. We have often been ahead of our own tough schedule. In the two years since we announced the strategy, Telstra has achieved outcomes that are unrivalled among its peers – and as I mentioned - recognised as such.

Against type and experience elsewhere in the world, Telstra, as the incumbent leader, has turned around declining performance and we are winning new customers with new products and services in the key strategic battlegrounds: Wireless, Broadband and PSTN (or fixed lines).

Telstra is building impressive new capabilities in content and strengthening our international investments. We are doing that full speed ahead – and simultaneously.

How are we doing that?

At last year's AGM I said we were building a world-class management team. And we have. The team has significantly strengthened during the year. We are training our future senior executives on a daily basis. We have built a deep, strong, diverse and fast-moving management team, tactically and strategically adept.

Sol and his team use a combination of internal promotions; executive development; senior talent recruitment – globally, regionally and locally; and organisational design.

We have structured our remuneration arrangements to support the building of a world class management team.

We are building and strengthening every level. We are focussed on the future of the business – we are focussed on its long-term growth and success. Telstra’s once bureaucratic culture is now customer focussed and energised as never before. Our employees are proud to work for Telstra.

Quite simply Telstra is setting the performance benchmarks. Having re-defined our own measurements of success, we are raising the bar across the industry. And we will keep doing it.

Let me run through some of the achievements. Telstra has:

- won clear leadership in mobiles – we have built the world’s fastest, most advanced national 3G wireless network. It took us just ten months. Recent and future improvements will ensure this will be the greatest advance in rural communication since the introduction of the telephone;
- we have increased our share of broadband to above 47 per cent – which is against the global trend of incumbents like Telstra losing share;
- and an extra-ordinary achievement – we have not only stemmed the decline in our core PSTN business – the fixed lines business – we achieved growth in the number of retail lines in the last half of the financial year. That is the first time growth has been achieved since 2001;
- we have successfully introduced a major change to the way we sell our products and services – it’s called market-based management. We have worked very hard to achieve a much better understanding of our customers. We have significantly reduced churn and are achieving much greater sales success;
- we have developed one of Australia’s strongest media comms brands and content;
- and management have achieved an extraordinary quadrella in Operations - simultaneously reducing cost - improving customer service and raising employee satisfaction – while reducing headcount;
- Telstra has developed and launched a next generation “all IP” fixed network environment;
- we have also invested heavily to drive real productivity gains in sales, product development and customer support – including having world class IT tools and technologies for our employees and customers.

As mentioned we have rationalised our international portfolio - making selected strategic investments in high growth markets like China, to give broader revenue and higher valuation strategic growth options.

Taken together, these strategic, operational and management changes – all accomplished in only 24 months and many in the last year – are driving a dramatic turn-around in Telstra’s financial performance.

We are performing financially, we are delivering for our customers and we are standing up for our company and its shareholders.

I would like to turn my comments to our public policy discussions for a few moments...

I am very conscious that we are in the middle of the federal election campaign. My public policy comments are not meant to be – and should not be – interpreted as preferencing one party or another.

There has been a lot of focus on our ongoing discussions with the Federal Government and with the regulators. The topics include the out-dated regulatory burden on the company – which we believe is holding us, the nation and the industry back - and the greater use of fibre in the network.

Our decision to have these ongoing discussions is an important issue of itself and there should be no misunderstanding of our position.

Let me reassure you these discussions are not distracting us from the running of the company – but they are crucial to the future of Telstra and we believe the future prosperity of the country.

When Telstra talks about regulation and we stand-up for our company we have some critics. Some people say “well they would say that or think that” or they say we are “self-interested”.

Looking at Australia's industrial and corporate past, and indeed recently, shows us that governments of every colour and kind do get industry policy settings wrong when they start micro-managing– and the impact on the industries, employees, customers and the nation has been dreadful.

We believe that there are many telecommunication policy settings in place now - and some have been around for a very long time – that are wrong for Telstra, wrong for the industry and wrong for Australia's current and future prosperity. And they are directly impacting Telstra - your investment.

Government intervention - whether it is through tariffs, subsidies or regulation has been demonstrated again and again to:

- increase costs;
- hurt consumers with lower quality products and services;
- create extraordinary and unnecessary complexity;
- distort investment; and
- stifle innovation.

Don't misunderstand me or Sol or anyone in Telstra, we are not arguing against regulation per se - governments do have a legitimate role in regulating key strategic industries in Australia. That role is well established in market economies. It is to:

- protect consumers and otherwise stop or contain inappropriate behaviour;
- ensure national standards;
- oversee Health and Safety; and
- promote an environment that encourages investment and fosters real competition.

The problem is industries sheltered by interventionist policies have usually failed to grow up – or worse have never been able to stand on their own merits and that ultimately hurts consumers.

And whether it's securing protection from legitimate international or domestic competition, or seeking a free ride on your competitors' infrastructure, the result is

irrational and unsustainable investment, less product and service innovation, retarded industry growth, higher prices and fewer choices for consumers.

Inefficiency is, ultimately, lacking in compassion and wasteful.

We believe that if our shareholders and customers are being negatively impacted by government decisions and policy we have a legal and moral obligation to get involved.

It is also important to be clear – Telstra’s disagreements with the regulators began long before we started to more publicly push back.

When talking about Telstra’s debate with the government and the regulator, it is sometimes all too convenient to forget that Telstra has been a regular and silent departmental and regulatory target for decades. The view was that we were big enough, could swallow any losses, and take any hits to the business.

There is a long, long list of decisions that have negatively impacted the company and ultimately shareholder value, certainly investment decisions and services. And it’s not to Telstra’s honour to say that – while it may have disagreed with various Government decisions – Telstra’s approach was to compromise and “go quietly” in the vain hope that it would be treated better next time.

It didn’t get better – it got worse. Much worse.

I do not believe we can allow ourselves to be a country where business – or anyone for that matter - doesn’t feel free or safe or have the right to debate serious structural and policy issues with government.

It shouldn’t be seen as risky or even heroic to stand up for consumer interests or shareholder rights – it should be seen as mandatory to stand up for what you believe, especially if you are truly protecting your shareholders and customers’ interests.

We will stay engaged in these issues – we must. But we won’t be distracted from the job of running Telstra to the best of our ability.

And we are driving the business.

In closing I would like to make some direct comments addressing the matter of our remuneration plan which Charles Macek will address more fully in a few minutes...

We are changing the game in Telstra and the telco industry in this country with our transformation.

To drive the business and to drive the implementation of the transformation plan, the Telstra Board has constructed an executive remuneration plan and linked that plan directly to the success of the transformation strategy.

Much of the execution of the strategy is commercially sensitive information for instance the date of the Next G network going live and the timing of deployment of various other technological capabilities.

Giving our competitors a heads-up would not have been in the interests of Telstra and its shareholders. We cannot and will not provide competitors with additional information on the company's plans. The Board believes financial hurdles in combination with performance hurdles is the most effective and direct way of delivering shareholder value.

I will make some further remarks once this matter has been put to shareholders for their consideration today.

In summary Sol and the management team have delivered another excellent year of progress.

The market-based management strategy, introduced by Sol and his management team, is helping us win customers, grow revenue and take back market share.

Telstra was once a telecommunications company with retail functions. Now we are a world-class media communications company and are well on our way to becoming a world class retailer as well – you can see it in our results and that our customers agree.

We are on track or beating our own transformation schedule - we are ahead of plan, delivering on important milestones.

We have a management team that is truly world class and recognised as such by the international industry. We now have a truly deep management pool – people who can develop the strategy and execute on it. I don't believe Telstra has ever had this much talent internally in its history.

Our service levels are the highest ever recorded despite fewer staff.

Our customers are making choices and we are winning in the market because we are delivering the superior products and services people want at the right price point.

There is no magic to it. Just meeting customer's needs and offering them real value. And we will be doing even more for customers.

I will now hand over to your Chief Executive Officer...

Speaking notes for Telstra's Chief Executive Officer

Annual General Meeting

7 November 2007

Thank you, Donald. `Good morning everyone. It is a pleasure to be here today to update you on the operations of your company over the past year and on how we are delivering on our promises.

We ended 2007 ahead of plan. And last week our performance led us to raise our EBIT and EBITDA guidance for the 2008 financial year and our 2010 objectives for revenue and EBITDA growth. I will talk about the financials later.

First, let me say we have been busy since we last talked to you in November 2006. Today I will take you through the milestones that have occurred in our transformation across the networks, retail businesses, service delivery and ultimately the culture of our company.

Today is for those who have risked their capital. Today is for those who have invested in this company and are interested in seeing how we are travelling and what we are going to be doing in terms of creating profitable growth.

We have spent the past year delivering our transformation strategy. We have done what we said and we've also done it better, faster and at a lower cost.

Our results have exceeded market expectations and our performance is world leading -- in mobiles, broadband and even the results associated with the fixed line network.

Before I report on the year past, let me quickly refer back to the need for our transformation. In mid-2005 we were experiencing:

- declining market share;
- spiraling costs with expenses growing at double digit in retail and no growth at the topline;
- wholesale revenue was growing at double digit rates but this was exceeded by expense growth; and
- we also had some unresolved regulatory prices with ULL and LSS.

Back then, Telstra was:

- not leading the local market;
- not innovating; and
- not differentiating.
- We were being out grown by our competitors right here in Australia and if you read the comments back then from media and analysts there was little hope in sight.

So, on 15 November 2005, we launched our transformation strategy:

1. A multi-year plan;
2. An integrated company – delivering integrated services;
3. A One Factory approach;
4. Applying Market-based Management –putting the customer at the centre of everything that we do;
5. Injecting inside the business a true competitive culture where again anything is possible and winning is everything;
6. And, finally and most importantly to all of you here...delivering performance is all that matters...but it has to be complete, thorough, deliberate and aggressive,

Our plan is about changing the culture throughout the company from a regulatory-centric model to a customer-centric model.

It is that change which is moving Telstra to a value-based competitive model rather than a price-based competitive model.

It is about creating value for you, our shareholders.

Many people tend to forget where we came from. Last year when we met on the eve of the T3 equity issue, we were facing skeptics and critics about T3, our transformation and our guidance.

As everyone in this room knows now, after our full year results in August, after the results of differentiation from our competitors led to us winning in the marketplace, many people have started changing their views. But when the board and management were putting together the remuneration plan a year ago, guess what, not many had the belief that it could be done. The plan that the Board put in place has worked...it was strategic and well thought out and it is incenting senior management and all employees of Telstra to do what has not been done in the past and create value for shareholders. Next year we will stand here showing even more progress..you can count on that.

Let me give you an idea of what has been achieved in the past year.

- Analysts were predicting a share price then as low as \$2.80 to \$3.00 for domestic institutions.
- In fact, the T3 price was \$3.60 for retail investors and \$3.70 for institutional investors.
- The Government's expectations were for a sale worth about \$8 billion.
- In fact more than \$15.5 billion was raised by the sale.
- Telstra's market capitalisation was then \$ 47.8 billion.
- As of yesterday, the market cap of Telstra was \$60 billion.
- Add the dividends of \$3 billion and more than \$15 billion of shareholder value has been created since last year, impressive I think by most people's standards.
- Non-domestic shareholders represented about 6 to 7 per cent of our base.
- Now that figure is around 18 per cent.

- More than 100,000 shareholders joined our share registry and have enjoyed a total return of more than 70 per cent and the instalment receipts have outperformed the ASX 200 during this time.
- The instalment receipt price - \$2.00 per share on 20 November 2006 was \$3.32 last night.
- Finance Minister Nick Minchin last year acknowledged the contribution of Telstra's vision and transformation towards that result. And just last week he said: and I quote:, "One of the most significant policy reforms of this term of government has been the sale - the final sale of all of our Telstra shares, a major initiative"

Now I'd like to move on to talk about our Next G™ network which we launched shortly before our AGM last year. I'd like to share with you a story about how our Next G network is changing lives:

(VIDEO)

I told you last year all about our Next G™ network and how it would change the game in wireless and I thought change Australia forever and as you have just seen from the video, it really is transforming lives and a little later we will show you how it is transforming business.

Since we launched we have turned up the speeds of our networks from 3.6Mbps in October 2006 to 7.2 Mbps in February this year and to 14.4 Mbps in September. We have in our plans an upgrade path of 40 Mbps by 2009. Basically the faster the speeds, the more information can be transmitted more quickly – which means to me real-time. Right here in Australia we are leading the world with the largest and fastest nationwide wireless network on the planet.

There has been dramatic improvement in wireless performance which I will touch on later.

Now I'd like to share with you what the Next G™ network means for our business customers.

Now I'd like to turn to Telstra's Next IP™ network which we launched in April this year.

- IP stands for "Internet Protocol" but it's not about the Internet – it is about a technology platform that will make it simpler, easier and faster to bring new services and new applications to our customers.
- It essentially allows all services to be converged on the one network be it voice, video, data, fixed or mobile.

Our Next IP™ network for businesses is one of the largest fully integrated nationwide IP networks in the world.

Our Next G™ network and Next IP™ network are beyond comparison with competitors.

- It's bigger; Faster; Secure; Fully Featured, and Integrated.

You can make voice calls, video calls, and transmit data that you couldn't do before.

Pre-IP we had multiples of networks, some talked to each other, some did not. We needed to move from a legacy of networks of the past 100 plus years to the future of: anything, anywhere, anytime and most importantly right here in Australia.

Because it's by Telstra, we have: "carrier-grade" reliability – that's five nines reliability or 99.999 per cent; robustness; and, security.

This allows unparalleled optimisation and standardisation and is unmatched by any other company.

Now I don't want to sound like a "techie" - but let's talk about the "why?"

- Before it was ad-hoc deployment.
- Before it was no different in Australia than the United States and Europe or anywhere else in the world.
- As a matter of fact here in Australia we were lagging the rest of the world.
- Now, here in Australia, we have the best IP wireless AND the best IP fixed wire-line network anywhere in the world.

Our Next IP Network has 600 per cent more coverage than our nearest competitor. And that's what our business customers want - a scaleable, large, robust and secure network.

And let me say secure over and over and over again. The reason is simple The Internet is like the wild, wild west and when you go to the West through Telstra you don't have to worry.

And the results from IP are showing.

- We had 22 per cent growth in services; 26 per cent growth in revenue; and,
- 80 per cent of our business customers are now using IP in some form or fashion.

Our lives have changed and this advertisement about BigPond's Home Networking product really explains why we need broadband.

[\(video\)](#)

So you can see why we need broadband – it has a direct relationship with virtually everybody's lives whether you're young or old, whether at home, at work, or at play. This has a direct relationship to a country's knowledge industry competitiveness and growth in the global marketplace. We are living in the Web 2.0 world – the world of the C's – community, collaboration, conversation, collective intelligence, content creation and a change of scale. Web 1.0's "killer app" was email.

In January 2007 there were over a billion users of the Internet across the world. About 90% of Internet users have email accounts and two-thirds of them check their mail at least once a day. Web 2.0's "killer app" is online communities be they social, business, health or education related and the bandwidth implications are phenomenal:

- One hour of video download consumes as much bandwidth as a year's worth of emails.
- A typical video consumes 1,000 times as much bandwidth as a sound file and a high-definition video consumes 7 to 10 times as much bandwidth as normal video.

Once again this emphasises why I call Telstra the central nervous system of Australia's economy. Broadband underpins productivity gains in just about every sector of the economy.

And to help our consumer customers out with a faster fixed line broadband service, in September we launched BigPond cable extreme – a 30Mbps cable service in Sydney and Melbourne.

(VIDEO)

You're company is on the move. Speed is everything.

Now I'd like to turn to another initiative in our business over the past year – the growth in our SouFun acquisition our business in China. We acquired a majority holding in August 2006 of SouFun, China's leading online real estate and home furnishings business. In March 2007 we launched the English language version of SouFun.

SouFun, which has been growing its revenues at near triple digit rates, is among the nation's top 10 websites with 46 million unique users every month. The site's average monthly page views have grown to over 1 billion per month.

- Since acquisition, SouFun has grown its presence from 45 cities to 75 cities – as part of a planned expansion to 100 cities in China – each with a population of 1.0 million or more – and we're going to get all that done by the end of calendar year 2008.
- In the 06/07 financial year, **Telstra International experienced 18 per cent growth in revenues.**

The SouFun acquisition advances Telstra's role as a pan-regional media-communications player.

Now I would like to turn to our retail transformation and share with you two important milestones in our customer relationship journey. Last Wednesday we unveiled our first interactive flagship retail store, T[Life] here in 400 George St in Sydney. At T[Life] you can touch and experience the richest content, the latest devices, integrated solutions, tailored service.

We are giving our customers hands-on "experience" of what is possible and access to "consultants" who show them how to use, how to do, and how to setup all the capabilities in those devices. No more conversations limited to just price plans and handsets. It's about now being one of the most compelling customer experiences that can be found anywhere in the world.

Last Thursday we launched the **Telstra Experience Centre** for business and enterprise customers which includes:

A state-of-the-art facility showcasing Telstra's world-class technology, Next IP™ and Next G™ products and integrated solutions for the home, at work and on the go. It's an environment in which customers can interact with Telstra's health and education applications, home, entertainment and business solutions.

So that's how we deal with the customers at the front-end and the numbers are looking good as to how we service them once they are our customers.

Let me turn to Telstra's workforce. We needed to equip our workforce with the skills and knowledge to properly service next generation networks, products and customers.

- We are making a \$200 million investment in the Telstra Learning Academy for the preparation and training of Telstra technicians.
- Already more than 16,000 of our operational workforce – that is about 80% - have been taken through training courses at our Telstra Learning Academies.

Telstra also has a strong commitment to growing and strengthening talent from within the company. We are promoting from within, based on ability and performance.

We are continuing to change the game in customer service, improving across all metrics. Our field workforce productivity improved by more than 20%. We are reporting customer service guarantee performance at record levels.

We announced last week that we had delivered our first milestone of what you have heard us refer to as release 1, which is associated with our IT transformation, it's now in production, , two months ahead of schedule and it is now supporting real customers. Although there are other milestones to be hit, this is the biggest for our IT Transformation.

Telstra's energy conservation programs have continued throughout the past year.

- Telstra is Australia's largest private sector solar power operator.
- We have installed Global Positioning Systems into our vehicles and cut vehicle fuel consumption by 5 per cent and increased productivity by 15 per cent; and
- Our directories business has 95% of households recycling their phone books.

We are also using our own technology in house to cut energy consumption and costs. In the past year Telstra has conducted around 7,500 video conferences lasting nearly 20,000 hours saving around 4,200 tonnes in travel carbon emissions,

Telstra also commissioned a Report called *Towards a High-Bandwidth, Low-Carbon Future: Telecommunications-based Opportunities to Reduce Greenhouse Gas Emissions*.

The Report identifies seven opportunities through which telecommunications could provide nationally significant carbon emission abatement opportunities that if realised could reduce or avoid carbon emissions in Australia by an amount and at a pace that meets the Kyoto Protocol. These opportunities include tele-working, high-definition video-conferencing, sensor driven appliance control and aggregating transport and freight movement.

Let me now turn to the financials.

- Last week we announced our fiscal '08 EBIT guidance is being increased to 4 to 6 per cent for our underlying EBIT and 5 to 7 per cent post the Foxtel distribution.
- We raised our 2010 objectives for revenue and EBIT growth from 2 to 2.5 per cent to 2.5 to 3 per cent.
- The punchline here is that the transformation is working, the numbers now are going up and you're going to see why as we cover the day.

We advised the markets in November of 2005 that one of our objectives ultimately was to generate \$6 billion to \$7 billion of free cash by the end of 2010. If you'd look back to what we announced at the end of this past fiscal year, we ended the year at \$2.9 billion.

It's hard to find companies with a \$50 billion market capitalisation that are promising to achieve cash flow growth of this magnitude...

So here is the punchline: we're back with revenues exceeding expenses, we're gaining market share, and we are outperforming our international peers, benchmarked in the key areas of the business mobiles broadband and PSTN.

In the last 12 months there has been a huge turn around in our mobiles business with growth now at double digit levels at a time when European incumbents are growing at around 2%.

In August we reported continued strong growth in the non-SMS mobile data as customers take advantage of the unique capabilities of our Next G network.

Mobile data overall now accounts for more than 30% of total mobile services revenue. Over the last year Telstra has moved from the middle of the pack to a world leader in mobile data revenues.

At the end of Q1 our Next G™ network subscriber base stood at more than 1.5 million subscribers. Our total 3G subscriber base at the end of September has reached more than 2.5m, or 27% of our subscriber base, up 5 percentage points in the quarter. Our 3G market share has increased from ~0% in FY05 to 19% in FY06 and ~44% in FY07. That means we are now leading the world in terms of the percentage of our customers on 3G and I believe we can be between 50 and 70% by fiscal 2010.

In Q108, we were adding around 20,000 data card users per month and our total data card users are just under 400,000. Wireless broadband revenues made up about 7% of Telstra's total broadband revenues in FY07 and close to twice that in FY08 .

We continue to maintain our \$20 Average Revenue Per User or ARPU uplift in 3G even as it moves beyond early adopters. That is a dramatic change because for Telstra 3G versus 2G means another \$20 of ARPU. When a customer moves to 3G, they're showing significant uplift in voice calls, use of SMS, interactive data services, it is world-leading.

And it's not just people who live in the cities that are using our Next G™ services. As it turns out we are seeing exponential growth in wireless data usage by our rural and

regional customers.

Let me turn to fixed line broadband.

- The second half of fiscal 07 saw retail broadband revenue growth at 80% - this is more than 4 times that of European incumbents.
- In Q1 08 we are still adding customers at a rate of at least 3 to 1 over our nearest competitor and growing both market share and ARPU.
- As you have seen today there is an increasing need for broadband speed. In meeting this need we have already upgraded our data cards to speeds of 7.2 Mbps downlink and 1.9 Mbps uplink and we remain on track to achieve peak network speeds of up to 40Mbps in 2009, up from 14.4Mbps today.

Through Telstra's Next G™ network, Australia continues to have the largest and fastest national broadband wireless network in the world.

In our PSTN business, retail revenues in the second half of fiscal '07, were at a run rate of a minus 2.5 per cent loss on PSTN. By way of comparison leading European operators Deutsche Telecom and Telecom Italia's are seeing declines of greater than 8% per annum.

We are also world-leading here because we're not losing PSTN lines. Q1 08 saw this positive trend continue with retail PSTN and Services In Operation increasing 33,000 in this quarter. This compares with AT&T's and Verizon's PSTN loss which is about 8 per cent in the last quarter.

More is coming in 2008:

- Our IT Release One or "TR1" will serve 5.3 million consumer and small business customers when the migration is completed over the coming months.
- The second release of IT improvement - what we call TR2 – is on track for release at the end of 2008.
- Market-based Management will continue to drive the growth in our retail businesses as we differentiate ourselves from our competitors.
- Further integration of our mobiles, BigPond, Sensis and Foxtel assets will drive greater value for customers and revenues for Telstra as we reap scale and scope economies.

And as shareholders who have invested your own capital in this company, you will benefit as we work to create value over the life of this transformation plan.

So we are moving fast:

- We were losing market share and now we're gaining;
- We had declining revenues and now they're growing; and
- We had eroding margins and now they're expanding.

And we're moving smarter:

- We had increasing costs and now they're under control;

- We had falling productivity and now it's increasing; and
- We were not leading Australia and now we're leading the world – not because we say we are but because we have benchmarked our performance with our global peers.

When we come back again next year our Free Cash Flow will be stronger, our earnings will be higher and our competitive capabilities will be even greater. You can trust that this management team will be living up to the promise that we made to you, and to all investors, as we reach the heights, as we approach 2010.

We are working are fast and your company is becoming a global leader.

Thank you back to Donald.

TELSTRA ANNUAL GENERAL MEETING 2007

MR CHARLES MACEK, CHAIRMAN – REMUNERATION COMMITTEE REMUNERATION REPORT

Introduction

Ladies and gentlemen.

My name is Charles Macek and I am Chairman of the Board's Remuneration Committee.

The Remuneration Committee is responsible for reviewing and recommending to the Board the remuneration policy, strategy and structure for Telstra's Board, the CEO and senior executives.

In carrying out its functions, the Committee seeks independent expert advice and each year prepares the detailed Remuneration Report you can find in your Annual Report and on-line. Over the last year we have undertaken a rigorous review of the remuneration arrangements for our senior people. In doing so, our focus has been on advancing the best interests of our shareholders.

Today I will take you through the process and outcomes of this review. I will also speak about remuneration of non-executive directors and the increase to the directors' fee pool sought under Item 5 of the Business of this Meeting.

However, before I do so it is important that I explain the context and philosophy that underpinned the review... and which guide our approach to remuneration at Telstra.
[SLIDE1]

To summarise, our remuneration structure is designed to:

- Attract and retain world-class executive talent;
- Drive and reward outstanding executive performance, with a focus on the successful transformation of the business;
- Make executive reward dependent on the creation of shareholder value; and
- Be transparent, while protecting commercially sensitive information that could be used against us by competitors or the regulator.

Telstra's remuneration strategy is designed to deal with the single biggest risk that shareholders face, namely the absolute necessity to attract and retain talent in an increasingly globalised market.

Telstra is undertaking one of the world's most significant turnarounds of a large, complex company and this is the key to enhancing shareholder value. It is doing so in a challenging and sometimes hostile environment. We need world class talent to drive this complex, multi year transformation through to successful completion.

The Board's focus is on advancing the best interests of shareholders. We have aligned shareholders' and executives' interests by tightly linking the reward opportunity for executives with the delivery of transformation outcomes and the creation of real value for shareholders.

Long term rewards for achieving the transformation do not come unless shareholder value is created. In fact, no options *whatsoever* can vest unless compound total shareholder return over the four years of this plan is an absolute minimum of 11.5 per cent per annum. To be able to get the highest reward, senior executives would need to add around \$50 billion in shareholder value, of which 99.7 cents in every dollar would accrue to Telstra shareholders through dividends and a higher share price.

Similarly, the vast majority of the CEO's package is at risk and significantly depends on the creation of shareholder value.

To guide us through this review the board appointed four independent, Australian and internationally recognised advisory firms. These firms provided a significant level of advice on the appropriateness of these arrangements. The process involved many hours of meetings, modelling of scenarios and much discussion by the Board. The time involved in completing the analysis, design and documentation reflects its thoroughness. We are convinced this rigorous process represents global best practice.

Despite this, some proxy advisors – whose expertise in this area is unclear - have recommended voting against the remuneration report. Frankly, our approach is about driving performance that delivers long-term value to shareholders, not striving for conformance with the standard templates, inflexibly applied by various proxy groups and some institutions. Performance, not conformance, is our watchword.

To the specifics:

As in previous years, our senior executives' remuneration has been made up of three complementary elements:

- fixed remuneration – that is, cash based salary;
- a Short Term Incentive (STI) payment which is “at risk”; and
- a Long Term Incentive (LTI) which is provided as options and is also “at risk”.

To strengthen the link between senior executive remuneration and company performance, we have increased the at risk component of executive remuneration for fiscal 2007 and focused this increase on achievement of Telstra's transformation priorities, key milestones and financial results.

SENIOR EXECUTIVE REMUNERATION (OTHER THAN THE CEO & COO)

I will now address the senior executive arrangements, followed by those for the CEO:

Performance measures are heavily weighted towards driving transformation, laying the foundations for sustained growth in shareholder value. This weighting will shift to a more traditional position of using operational measures for the STI and financial growth and shareholder return measures for the LTI as we move through the transformation period.

If the minimum performance levels are not achieved, no STI or LTI is awarded and the executive receives their fixed remuneration but none of their “at risk” remuneration. Senior executives will only earn significant rewards if challenging pre-determined company measures and targets are achieved.

In fiscal 2007 the Short Term Incentive was determined by corporate performance against targets relating to Earnings Before Interest Tax Depreciation and Amortisation, revenue growth, network transformation milestones (including the Next GTM network being launched in world record time, rapid deployment of the IP core, the HFC upgrade and ADSL 2+ rollout), increased broadband marketshare and achievement of individual accountabilities. These have all been significant achievements which have been delivered aggressively and, in most cases ahead of what were very challenging targets.

The average Short Term Incentive payment for our key management personnel was about 79 per cent of the potential maximum, and ranged from 26 to 90 per cent by individual.

Senior executives previously received their Short Term Incentive entirely as cash. However, under a newly introduced Executive Share Ownership Policy, senior executives received 25 per cent of their STI entitlement in the form of Telstra shares.

This Policy further aligns the interests of executives and shareholders and ensures that the market performance of the company has a direct economic impact on the individual executive. Under the policy, the company’s most senior executives are, within five years, required to hold Telstra shares worth 100 per cent of their annual fixed remuneration. Other executives are required to hold Telstra shares worth 50 to 75 per cent of their fixed remuneration, depending on their management level.

We also introduced the new Long-Term Incentive Plan, which focuses our executives on generating outstanding total shareholder returns by June 2010 through successful delivery of the transformation strategy.

Under the LTIP, executives received a grant of options, which is divided into three tranches that will be progressively tested over two, three and four year performance periods. These options will only vest – and therefore will only deliver any value to the executive – on achievement of a range of demanding transformational milestones, the Company’s resulting financial performance *and* generation of shareholder returns. Vested options can only be exercised after June 2010, subject to shareholders receiving compound annual growth in

total shareholder return of at least 11.5% per annum. This would equate to an increase in shareholder value over the four year period of around \$25 billion.

I want to make this issue clear because it has been misreported in the media. The 11.5 per cent CAGR is a *safety net*, not a trigger. Passing this gateway DOES NOT guarantee *any* reward whatsoever for executives. *If* the gateway is achieved, *then* options may vest depending upon performance against the other LTI measures.

It is also important to distinguish this gateway from the TSR targets within the incentive plan itself. The TSR target and stretch measures management must achieve to receive value from this component of the plan are 18 per cent and 20.5 per cent compound growth per annum respectively.

Very deliberately, the top-end targets are substantially higher than our guidance to the market and market consensus, which indicates that the market would agree these top end targets are a genuine challenge.

[SLIDE 2] This slide depicts the framework. Telstra's transformation strategy involves delivering value to shareholders through enhancing the customer experience by building new capabilities and then getting customers to use those capabilities.

So firstly comes the IT and network transformation in order to build new capability which will enhance the customer experience and, in that way, drive revenue. Secondly, transformation will significantly reduce our costs. Thirdly, value is created for shareholders, as reflected by EBITDA, TSR and the return on invested capital.

[SLIDE 3] The emphasis of the LTIP will evolve over four years as Telstra progresses through its transformation journey. This diagram illustrates the evolution. In particular, emphasis will move from transformation activity in the early years to traditional financial and shareholder value measures.

[SLIDE 4] This slide further demonstrates the alignment between management and shareholders. To achieve just one-third of their entitlement, which would be regarded as good performance, senior managers would need to add more than \$40 billion in shareholder value and meet every target objective. Great performance requires achieving more demanding stretch targets, and even then only two-thirds of the potential maximum would vest over the four year period of the plan.

To earn the maximum potential Long Term Incentive, management would need to meet every goal for the transformation, meet all long-term stretch objectives and also sustain multi-year stretch performance for EBITDA. This would be an extraordinarily beneficial outcome for shareholders, creating more than \$50 billion of shareholders' value.

I will briefly clarify three issues that have been raised in public commentary:

First, some have suggested that the exercise price for these options is too low. It is calculated in the same way Telstra has set this price for the past eight years without any criticism, being the volume weighted average share price for the five trading days after the release of the previous year's annual results. As advised to shareholders at our AGM a year ago this was \$3.67. Thus, the value to executives will only be the difference between \$3.67, which they have to pay, and the share price at the time they exercise options, which they cannot do until after June 2010.

The exercise price for this year's LTI has been calculated in the same way and will be \$4.34.

The alternative put forward by one proxy organisation of linking the exercise price to the day of announcement would create the potential for gaming to ensure allocations are made when the share price is low. The merit of the Telstra approach is that the price is set within a clearly defined and transparent process and is not subject to manipulation by changing the date each year.

Further, such criticism disregards the fact that shortly after the \$3.67 price was set, the Government's remaining shares in the company were sold to retail and institutional shareholders at \$3.60 and \$3.70 per share respectively in the T3 share offer. There were an additional 2 billion shares that were available for sale but remained unsold, evidencing that the price was not regarded as being too low.

Second, there is a legitimate desire by shareholders for transparency of targets. In response to this we have provided extensive detail around the total shareholder return (or TSR) measure. However, as directors we are required at all times to act in the best interests of shareholders and, where we have provided less information than some would like, it is because it is not in the interests of shareholders to publicly disclose the Company's commercially sensitive information that could be used against us by competitors.

Thirdly, I refer to the use of absolute TSR. Some shareholders support this measure as it provides a clear, and measurable target. Others prefer relative TSR, because it is the basis on which they are rewarded. The Top 10 Australian companies is one peer group that we have considered, but chosen not to use as it is dominated by banks and resources companies - industries with few similarities to ours. We have also looked at global telcos as possible benchmarks, however, these are operating in significantly different geographies and regulatory paradigms to Telstra.

We have looked at the merits of both approaches and we have chosen to use absolute TSR growth targets as the most appropriate measure to hold Telstra's management accountable, given the market and environment in which it operates, and the stage of the transformation of the company.

At Telstra we are not in the business of setting easy targets. If you refer to figure 11 in this year's Remuneration Report you can see that the LTI has not been paid out since 2001 - because performance hurdles have not been met or the plan has not entered its performance or testing period.

I should also add that the values shown for the executives' LTIs in Figure 12 of the Remuneration Report are accounting values only. Accounting standards require us to show the current year amortised value for options issued, even though those options have not vested and may never do so. I reiterate that if the performance hurdles and the gateway TSR are not met then the options will not vest and the executives will receive no benefit whatever from the LTI.

CEO

I turn now to the details of the CEO's contract.

As I have said earlier, the package that we have put in place for Sol Trujillo is very performance focused. It directly links his reward to delivery of critical transformation goals and the translation of these into value for our shareholders.

His fixed remuneration for the year was \$3 million. This is unchanged since 2005 and will continue unchanged for the next two years. It is a unusual situation where a CEO has agreed to forgo any increase in his guaranteed fixed remuneration for a period of 4 years.

The remainder of his compensation is entirely at risk. The Board undertook an extensive review of his remuneration arrangements during the year. Consequently, both his STI and his LTI potential have increased which further deepens the linkage between the success of the transformation strategy and his potential reward.

The measures and performance hurdles are aligned with those of his executive team and his incentives are similarly dependent upon exceptional performance and value creation. Where there are differences in his arrangements, they reflect that there is only one CEO in any organisation and is the result of a negotiation aimed at ensuring the successful transformation of this company. In some cases these differences place more restrictions on the CEO reflecting the shareholder focus of our review.

Sol's STI potential has been doubled, but all of this increase is in the form of deferred shares. Sol is eligible for up to \$3 million in short-term cash incentives and up to a matching \$3 million worth of deferred shares. It is important to note that to earn both the cash and deferred share component he must achieve all the challenging stretch targets that the board has set for him for the financial year. Twenty percent, or \$1.2M in total of his potential STI value is directly linked to achievement of EBITDA results.

The Deferred Shares will vest upon the achievement of the same annual short-term performance measures as apply to the other executives, but in the CEO's case he cannot access this value before the earlier of 30 June 2009 or six months after he leaves Telstra. The allocation of deferred shares is based on the same transparent pricing method we use each year.

With respect to his LTI, the CEO is allocated three tranches of options for the three years from fiscal 2007 to 2009 respectively.

The first tranche of 10.3 million has the same exercise price as the executives' 2006-2010 LTIP - \$3.67. The second tranche of 5.17 million has an exercise price of \$4.34, which reflects the same pricing method I described earlier. And the third tranche, also of 5.17 million, will have an exercise price determined in 2008 following the release of the next annual results.

Exactly the same tough financial, transformation and shareholder return targets apply to the CEO's long-term incentive as apply to other executives, with one exception: the executives' LTI plan incorporates the achievement of multi-year stretch EBITDA targets over the four years. However, in the CEO's case, there is a more significant value potential that is determined by EBITDA built into his STI.

The first tranche of options cannot be exercised before January 2009 and any resulting shares cannot be traded until at least 6 months later. The second and third tranches, if they vest, can be exercised at the earlier of January 2010 or six months after he leaves Telstra.

There have been conflicting media reports about the value of Sol's package. The facts are these. For fiscal 2007, Sol received \$5.6 million in cash made up of \$3 million fixed remuneration and \$2.6 million cash STI, and a matching \$2.6 million in deferred shares.

The remuneration table also shows \$2.7 million in other equity. This is the accounting value of his LTI allocations which may in fact be of no value to him. The actual number of options that may vest – if any – is yet to be determined and will depend on the degree to which he delivers on the performance measures.

[SLIDE 5]

Even if he earns a substantial part of this reward for performance, his total remuneration will not be out of alignment with the CEOs of other large Australian companies and will remain some distance below his counterparts at global telcos.

This graph shows a comparison of the remuneration arrangements of the CEOs of 10 of the largest Australian companies. This has been prepared by an independent remuneration advisor using a consistent method across all companies. You can see Sol's value in orange.

The Board considers that his contract reflects the value that he and his team can deliver to shareholders through the successful transformation of this company.

Non-executive Directors

I will turn now to the non-executive directors.

All non-executive directors – that is all directors other than the CEO – receive a “total package” of fees. They are required to take a minimum of 20 per cent of fees in the form of Telstra shares. This aligns their interests with the interests of our shareholders. The shares are purchased on-market, allocated at market price and held in trust for five years – unable to be dealt with – unless the director ceases to be a director.

The total fee pool available for non-executive directors, including the value of any shares allocated, is currently \$2 million. Today we are asking you to approve an increase in the fee pool to a total of \$3 million.

As the Notice of Meeting indicates, the increase is sought to enable us to appoint additional suitably qualified and experienced directors and to pay fees which are consistent with market benchmarks.

After the retirement of Belinda Hutchinson our board will comprise seven non-executive directors. Although the Board is functioning very well at the moment, we have a longer-term preference for nine to ten non-executive directors. We have an ongoing international and domestic search for new directors - a search which was on foot before we learned of Belinda’s decision.

Clearly Telstra must attract and retain top boardroom talent and to do so the remuneration on offer needs to be competitive with that available from other comparable companies.

The reality is that Telstra’s current \$2 million directors’ fee pool is significantly below comparable companies and the packages provided to our directors are below market benchmarks: six out of the Top 10 Australian companies listed on the ASX already have a fee pool of \$3 million or greater. For example National Australia Bank at \$3.5M, ANZ at \$3M and Woodside at \$3M.

Further, what we pay our directors remains well below other major companies. Independent research shows the typical package for a leading non-executive director at a Top 10 Australian listed company was around \$228,000 last year. The current Telstra director base fee is \$143,000 plus any committee fees, eg \$35,000 for audit committee members.

If the increase is approved Telstra’s fee pool will simply be at the median level for a Top 10 Australian listed company. We believe this is appropriate for a company as large and complex as Telstra and will help enable Telstra to attract and retain additional high calibre directors.

Finally, it is important that I make clear the proposed increase is in the total fee pool *available*. We have no intention to pay all of the fee pool immediately.

The exact amounts of increases to director and committee fees have not yet been determined but the board's intention is to pay director's fees in accordance with the relevant market benchmarks, allowing for the appointment of additional directors and future growth.

Conclusion

[SLIDE 6]

In closing, I know I have gone to some length today, but only because the Board understands the need for transparency and accountability on this subject.

After an extensive review of best practice in Australia and globally, and seeking independent expert advice, we have now embedded a performance-driven, shareholder-focused remuneration structure that we believe can generate real and sustained increases in this company's value.

We have aligned the financial interests of shareholders and executives by linking executive rewards to achievement of the transformation strategy, strengthened Telstra's ability to attract and retain top talent from the global talent pool that we're competing in, and we are driving a high performance culture.

It is the Board's judgement that our remuneration structure is in the best interests of shareholders. Our executives will only receive financial rewards from their STI and LTI if they perform for you, our shareholders.

I encourage you to deliver a positive vote on these matters, and to show your support for our management team who are making extraordinary efforts to deliver on a challenging transformation and drive returns for shareholders.

Thank you.