

23 June 2011

The Manager

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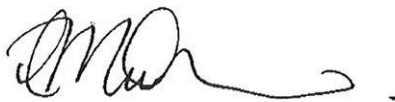
ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Shareholder Letter

In accordance with the Listing Rules, attached is a copy of a letter to shareholders, for release to the market.

Regards

A handwritten signature in black ink, appearing to be "C. Mulhern", followed by a long horizontal flourish.

Carmel Mulhern
Company Secretary



23rd June, 2011

Dear Shareholder

On 23 June 2011, Telstra announced that it had signed Definitive Agreements with NBN Co and the Commonwealth for its participation in the rollout of the National Broadband Network (NBN). These agreements are subject to the satisfaction of a number of conditions, including the approval of Telstra's shareholders and the critical step of ACCC acceptance of Telstra's structural separation undertaking and approval of its migration plan.

These agreements are the result of two years of complex negotiations and represent an important milestone in addressing much of the uncertainty for Telstra associated with the NBN and Government regulation. This will allow us to focus intently on our simplification and customer service strategy which is already bearing fruit.

We are writing to you today to provide an update in light of this announcement, in particular the steps needed to enable you as a shareholder to vote on our participation in the rollout of the NBN.

We are targeting this shareholder vote to take place at our 2011 Annual General Meeting (AGM) currently scheduled for 18 October. To ensure that as many shareholders as possible are able to attend, the AGM will be held in Sydney, rather than Brisbane as previously communicated. We also plan to videoconference the AGM to venues in Melbourne and Brisbane, in addition to our usual webcast of the event.

It is important to remember that the NBN is Government policy and is provided for in legislation. The Telstra Board has considered what is best for Telstra and its shareholders given that policy framework.

The Board expects to recommend that shareholders vote in favour of Telstra's participation in the NBN rollout, on the basis that it provides us with the ability to recover more value for the company than under the available alternatives, given the loss of value after the NBN policy announcements.

We are committed to providing you with sufficient information ahead of any vote so that you can make an informed decision. We are preparing an Explanatory Memorandum (EM), which will include more detail and outline the basis for the Board's recommendation to shareholders. The EM will also include an independent expert's assessment of the proposed transaction in the context of alternative options, and will be provided to shareholders approximately one month before the shareholder vote.

Consistent with the Financial Heads of Agreement signed in June 2010, the arrangements under the Definitive Agreements and associated Government policy commitments are expected to deliver approximately \$11 billion in post-tax net present value (NPV) over their long-term life. This value will not be in the form of an upfront payment, but it is the present value of payments to be received over many years. This value is also subject to a range of dependencies and assumptions over the life of the agreements.

Key components of the Definitive Agreements are as follows:

- Telstra has agreed to disconnect, progressively, copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint, and will migrate its services onto NBN-based services, over the expected 10 year build period of the NBN;
- Telstra will provide NBN Co with large scale access to certain infrastructure over an assumed average period of 30 years, at prices based on committed large volume levels of usage and availability. Telstra retains ownership of all infrastructure assets, except for those lead-in-conduits used by NBN Co which will become NBN Co property once used;
- The Government has agreed to a package which includes increased funding for the delivery of the Universal Service Obligation (USO), clarification of Telstra's USO responsibilities for the supply of infrastructure in new developments in the NBN environment, and the avoidance of certain costs to Telstra through the various funding measures such as funding of a public information campaign, and for employee retraining; and
- Telstra and NBN Co have also agreed to key product feature and price commitments relating to NBN Co's basic voice and data offering. These will be addressed in NBN Co's full product terms, which remain subject to further development and industry consultation.

Telstra expects to incur the following cash expenditure to support these arrangements over their life:

- approximately \$0.9 billion (post-tax NPV) for necessary work on infrastructure and customer migration costs. These will be offset through savings in legacy network, product and IT investment, therefore enabling them to be covered within Telstra's existing 14% capex to sales target;
- approximately \$0.6 billion (post-tax NPV) for necessary work on infrastructure and maintenance activities, which are covered within existing operational expenses, as Telstra routinely projects such costs on an ongoing basis;
- approximately \$0.5 billion (post-tax NPV) incremental operational expenses, spread over 10 years, for those customer migration costs and the necessary work on infrastructure which have been brought forward as a consequence of the NBN rollout. These costs will be absorbed within existing expenditure profiles.

Given the projected phasing of the NBN rollout plan, the impact of the agreements on Telstra's financial profile in FY12 is not expected to be material.

A financial summary of the proposed arrangements, a high level summary of the Definitive Agreements (including the steps that remain to be finalised prior to the shareholder vote), and a set of Shareholder Frequently Asked Questions have been released to the ASX and are available from Telstra's Investor Relations website **www.telstra.com/abouttelstra/investor**.

As always, we also welcome your feedback, which can be provided to **investor.relations@team.telstra.com**, or in the mail to the Investor Relations Department, Telstra, 242 Exhibition Street, Melbourne, VIC 3000.

Yours sincerely

C B Livingstone

Catherine Livingstone AO
Chairman

David Thodey

David Thodey
Chief Executive Officer