Telstra Corporation Limited and controlled entities

Appendix 4E
Preliminary final report
for the year ended 30 June 2006

Appendix 4E
Preliminary final report
30 June 2006
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Year ended 30 June			
	2006	2005	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue (including finance income)	**22,838**	22,264	574	2.6%
Other income	**328**	261	67	25.7%
Profit for the year	**3,181**	4,309	(1,128)	(26.2%)

For fiscal 2006 and fiscal 2005, all items included in our income statement are considered to be from continuing activities.

During fiscal 2006, the following items had a significant impact on our income statement:

On 15 November 2005, we announced the results from the strategic review that was initiated on 1 July 2005. We unveiled a strategy for improving our business by:

- introducing a company wide market based management system;
- the adoption of a one factory approach to managing operations; and
- delivering integrated services to our customers.

We also announced several key decisions and commitments regarding our process systems and products which will impact the future performance of the Company.

For the year ended 30 June 2006, we have recorded a number of redundancy and restructuring related expenses totalling $1,126 million associated with the implementation of the strategic review initiatives. A total provision of $427 million has been raised for redundancy and restructuring as at 30 June 2006. This includes $395 million recorded in current and non current provisions, $18 million recorded as a reduction in inventory and $14 million recorded as an allowance for other receivables.

The redundancy and restructuring costs include the following:

- redundancy costs associated with the reduction in our workforce, including those redundancies that have been provided for;
- the provision for restructuring costs associated with shutting down certain networks, platforms and applications, property rationalisation, onerous lease costs and replacing customer equipment;
- the impairment of assets due to the decision to shut down certain networks and platforms that are no longer considered recoverable. This also includes the decision to cancel certain projects relating to the development of software and the construction of property, plant and equipment; and
- the accelerated recognition of depreciation and amortisation of certain assets that, while currently in use, will be decommissioned as part of our decision to shut down certain networks, platforms and applications.

During fiscal 2005, there were no individual transactions that had a significant impact on our income or expenses that required specific disclosure.

Appendix 4E
Preliminary final report
30 June 2006
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to market (continued)

Dividends declared per ordinary share

	Telstra Group	
	Year ended 30 June	
	2006	2005
	¢	¢
Interim dividend	**14.0**	14.0
Special dividend paid with the interim dividend	**6.0**	6.0
Final dividend	**14.0**	14.0
Special dividend paid with the final dividend	**-**	6.0
Total	**34.0**	40.0

Our dividends for fiscal 2006 and fiscal 2005 are fully franked at a tax rate of 30%.

The interim dividend (including the special dividend paid with the interim dividend) for fiscal 2006 had a record date of 24 February 2006 and was paid on 24 March 2006.

The final dividend for fiscal 2006 was declared subsequent to balance date and will be paid in fiscal 2007. Our final dividend in respect of fiscal 2006 has been disclosed as an event after balance date. The final dividend has a record date of 25 August 2006 with payment to be made on 22 September 2006. Shares will trade excluding entitlement to the dividend on 21 August 2006.

In addition, our final dividend (including the special dividend paid with the final dividend) in respect of fiscal 2005 was provided for and paid during fiscal 2006. The final dividend had a record date of 30 September 2005 and payment was made on 31 October 2005.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Contents and reference page

Income Statement

for the year ended 30 June 2006

	Telstra Group	
	Year ended 30 June	
	2006	2005
	$m	$m
Income		
Revenue (excluding finance income)	22,772	22,181
Other income	328	261
	23,100	22,442
Expenses		
Labour	4,364	3,858
Goods and services purchased	4,730	4,211
Other expenses	4,427	3,815
	13,521	11,884
Share of net (gain)/loss from jointly controlled and associated entities	(5)	94
	13,516	11,978
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	9,584	10,464
Depreciation and amortisation	4,087	3,529
Earnings before interest and income tax expense (EBIT)	5,497	6,935
Finance income	66	83
Finance costs	1,002	963
Net finance costs	936	880
Profit before income tax expense	4,561	6,055
Income tax expense	1,380	1,746
Profit for the year	3,181	4,309
Earnings per share (cents per share)	cents	cents
Basic	25.7	34.7
Diluted	25.7	34.6
Total dividends declared (cents per share)	34.0	40.0

The above income statement is an extract from our full financial report. Refer to the 30 June 2006 financial report lodged with this document for the detailed notes to this statement.

Balance Sheet

as at 30 June 2006

	Telstra Group As at 30 June 2006 $m	2005 $m
Current assets		
Cash and cash equivalents	**689**	1,548
Trade and other receivables	**3,701**	3,549
Inventories	**224**	232
Derivative financial assets	**21**	4
Prepayments	**244**	249
Total current assets	**4,879**	5,582
Non current assets		
Trade and other receivables	**87**	97
Inventories	**20**	15
Investments - accounted for using the equity method	**23**	48
Property, plant and equipment	**23,622**	22,891
Intangibles	**6,123**	6,329
Deferred tax assets	**1**	2
Derivative financial assets	**391**	-
Defined benefit assets	**1,029**	247
Total non current assets	**31,296**	29,629
Total assets	**36,175**	35,211
Current liabilities		
Trade and other payables	**3,570**	2,807
Borrowings	**1,969**	1,507
Current tax liabilities	**428**	534
Provisions	**737**	421
Derivative financial liabilities	**12**	11
Revenue received in advance	**1,170**	1,132
Total current liabilities	**7,886**	6,412
Non current liabilities		
Trade and other payables	**197**	250
Borrowings	**11,409**	10,941
Deferred tax liabilites	**1,704**	1,804
Provisions	**974**	894
Derivative financial liabilities	**768**	864
Revenue received in advance	**405**	388
Total non current liabilities	**15,457**	15,141
Total liabilities	**23,343**	21,553
Net assets	**12,832**	13,658
Equity		
Share capital	**5,569**	5,536
Reserves	**(160)**	(153)
Retained profits	**7,177**	8,273
Equity available to Telstra Entity shareholders	**12,586**	13,656
Minority interests	**246**	2
Total equity	**12,832**	13,658

The above balance sheet is an extract from our full financial report. Refer to the 30 June 2006 financial report lodged with this document for the detailed notes to this statement.

Statement of Recognised Income and Expense

for the year ended 30 June 2006

	Telstra Group	
	Year ended 30 June	
	2006	2005
	$m	$m
Foreign currency translation reserve		
Equity accounting our interest in jointly controlled and associated entities	1	(2)
Translation of financial statements of non-Australian controlled entities	(36)	(193)
Cash flow hedging reserve		
Net hedging gains recognised directly in equity	327	-
Net hedging gains removed from equity and included in profit for the year	(420)	-
General reserve		
Equity accounting our interest in jointly controlled and associated entities	-	5
Retained profits		
Actuarial gain/(loss) on our defined benefit plans	958	(90)
	830	(280)
Income tax on equity items	(256)	24
Net income/(expense) recognised directly in equity	574	(256)
Profit for the year	3,181	4,309
Total recognised income for the year	3,755	4,053
Effect of changes in accounting policy attributable to Telstra Entity	74	1,223

The above statement of recognised income and expense is an extract from our full financial report. Refer to the 30 June 2006 financial report lodged with this document for the detailed notes to this statement.

Statement of Cash Flows

for the year ended 30 June 2006

	Telstra Group	
	Year ended 30 June	
	2006	2005
	$m	$m
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax (GST))	**25,229**	24,526
Payments to suppliers and to employees (inclusive of GST)	**(14,785)**	(13,848)
Net cash generated by operations	**10,444**	10,678
Income taxes paid	**(1,882)**	(1,718)
Net cash provided by operating activities	**8,562**	8,960
Cash flows from investing activities		
Payments for:		
- property, plant and equipment	**(3,636)**	(2,995)
- intangibles	**(619)**	(544)
Capital expenditure (before investments)	**(4,255)**	(3,539)
- shares in controlled entities (net of cash acquired)	**(43)**	(573)
- payments for other investments	**(5)**	(17)
Total capital expenditure	**(4,303)**	(4,129)
Proceeds from:		
- sale of property, plant and equipment	**50**	68
- sale of shares in controlled entities	**4**	-
- sale of other investments	**89**	176
Net proceeds from CSL New World Mobility merger	**42**	-
Issue of additional shares by controlled entities	**6**	-
Redemption of PCCW converting note	**-**	76
Proceeds from share buy-back by jointly controlled and associated entities	**34**	-
Loan to jointly controlled and associated entities	**-**	(37)
Interest received	**66**	78
Dividends received	**-**	2
Net cash used in investing activities	**(4,012)**	(3,766)
Operating cash flows less investing cash flows	**4,550**	5,194
Cash flows from financing activities		
Proceeds from borrowings	**8,641**	6,433
Proceeds from Telstra bonds	**-**	983
Repayment of borrowings	**(7,624)**	(5,735)
Repayment of Telstra bonds	**(517)**	(272)
Repayment of finance lease principal amounts	**(7)**	(16)
Staff repayments of share loans	**24**	19
Purchase of shares for employee share plans	**(6)**	-
Finance costs paid	**(940)**	(879)
Dividends paid	**(4,970)**	(4,124)
Share buy-back	**-**	(756)
Net cash used in financing activities	**(5,399)**	(4,347)
Net increase/(decrease) in cash	**(849)**	847
Foreign currency translation on opening balances	**4**	(3)
Cash at the beginning of the year	**1,534**	690
Cash at the end of the year	**689**	1,534

The above statement of cash flows is an extract from our full financial report. Refer to the 30 June 2006 financial report lodged with this document for the detailed notes to this statement.

1. Details of dividend or distribution plans in operation

During fiscal 2006 and fiscal 2005, we had no dividend or distribution reinvestment plans in operation.

2. Statement of retained profits

A reconciliation of our movements in our retained profits is as follows:

	Telstra Group	
	As at 30 June	
	2006	2005
	$m	$m
Opening balance	**8,273**	8,618
- adjustment to opening balance on adoption of new accounting standard	**(5)**	-
Adjusted opening balance	**8,268**	8,618
- profit for the year	**3,181**	4,309
- actuarial gain/(loss) on our defined benefit plans	**958**	(90)
- income tax on our actuarial gain on defined benefit plans	**(284)**	24
- dividends paid	**(4,970)**	(4,124)
- share buy-back	**-**	(476)
- transfer from consolidation fair value reserve	**6**	6
- transfers of reserve on sale of associates	**-**	6
- dilution gain recognised on CSL New World Mobility Group merger	**18**	-
Closing balance	**7,177**	8,273

3. Net tangible assets per security

	Telstra Group	
	As at 30 June	
	2006	2005
	¢	¢
Net tangible assets per security after providing for estimated tax on unrealised gains and losses	**51.9**	58.9

Our fiscal 2005 net tangible assets per security has been restated to reflect the adoption of Australian equivalents to International Financial Reporting Standards.

4. Details of entities which control has been gained or lost during the period

Entities which control has been gained during the period

- On 11 August 2005, we established a new entity named Platefood Limited to facilitate a new investment for nominal consideration.
- On 25 August 2005, we established a new entity named Sensis (Victoria) Pty Ltd to facilitate a new investment for nominal consideration.
- On 1 July 2005, we acquired 100% of the issued capital of Keycorp Solutions Limited for a total consideration of $56 million including acquisition costs. Subsequent to acquisition, the entity was renamed Telstra Payment Solutions Pty Limited.
- On 31 March 2006, we acquired 100% of the issued capital of the Converged Networks Group for a total consideration of $5 million including acquisition costs. Converged Networks Group included the following controlled entities:

  - Converged Networks Pty Ltd;
  - Communications Network Holdings Pty Ltd;
    - Advanced Digital Communications (WA) Pty Ltd; and
    - Western Communications Solutions Pty Ltd.

  Converged Networks Group is a provider of voice and data networks which operates primarily in Western Australia.

- On 31 March 2006, we merged our 100% owned Hong Kong mobile operations (Telstra CSL Group) with the Hong Kong mobile operations of New World PCS Holdings Limited and its controlled entities (New World Mobility Group) to form the CSL New World Mobility Group.

  Under the merger agreement, Telstra CSL Limited issued new shares to New World Mobility Holdings Limited in return for 100% of the issued capital of the New World Mobility Group and $42 million in net proceeds (net of acquisition costs). The fair value of the Telstra CSL Limited shares issued amounted to $577 million and diluted Telstra's ownership in the merged group to 76.4%. Our merger with the New World Mobility Group included the acquisition of the following controlled entities:

  - New World PCS Holdings Limited;
  - New World 3G Limited;
  - New World PCS Limited; and
    - New World Mobility Limited.

  The CSL New World Mobility Group is a provider of mobile telecommunication products and services which operates primarily in Hong Kong.

4. Details of entities which control has been gained or lost during the period (continued)

Other acquisitions

- On 1 July 2005, our controlled entity Sensis Holdings Pty Ltd acquired a further 25% of the issued share capital of Invizage Pty Ltd for a total cash consideration of $5 million including acquisition costs.

  Invizage Pty Ltd is a provider of information technology services for small and medium Australian organisations.

- On 22 December 2005, our controlled entity Kaz Group Pty Limited acquired a further 40% of the issued share capital of Enhanced Processing Technologies Inc for nominal consideration, giving us ownership of the entity. Prior to this date, Enhanced Processing Technologies was classified as a jointly controlled entity.

  Enhanced Processing Technologies Inc is a provider of cheque processing technology and services which operates primarily in the United States.

- On 1 February 2006, we acquired a further 24.7% of the issued capital of Adstream (Aust) Pty Ltd and its controlled entities (Adstream Group) for a total consideration of $21 million including acquisition costs, giving us a controlling interest of 58%. Prior to this date, Adstream (Aust) Pty Ltd was classified as a jointly controlled entity. Our acquisition of the Adstream Group included the following controlled entities:

  - Adstream Ltd; and
  - Quickcut (Aust) Pty Ltd.

  The Adstream Group is a provider of on-line services to advertisers that streamlines client approval and distribution of electronic advertising to media outlets.

Entities where control has been lost during the period

Sales and disposals

- On 31 August 2005, Trading Post Group Pty Limited (TPG) sold its investment in Just Listed Pty Ltd to Sensis Pty Ltd (Sensis).

  In addition, Sensis sold its 33% interest in TPG to Trading Post (Australia) Holdings Pty Ltd on 31 August 2005.

  These controlled entities are all within the Telstra Group.

- On 1 May 2006, our controlled entity KAZ Group Pty Limited divested its interest in Fundi Software Pty Ltd in a management buy-out for a total consideration of $4 million.

- On 26 June 2006, ESA Holding Pty Ltd sold its investment in Telstra Business Systems Pty Ltd to the Telstra Entity.

Appendix 4E Year ended 30 June 2006

5. Details of investments in joint ventures and associated entities

Our investments in jointly controlled and associated entities are listed below:

Name of entity	Principal activities	Telstra Group Ownership interest As at 30 June 2006 %	2005 %
Jointly controlled entities			
FOXTEL Partnerships (i)	Pay television	**50.0**	50.0
Customer Services Pty Limited	Customer service	**50.0**	50.0
FOXTEL Management Pty Limited	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (ii)	International connectivity services	**50.0**	50.0
Xantic B.V. (incorporated in The Netherlands) (ii) (b)	Global satellite communications	**-**	35.0
TNAS Limited (incorporated in New Zealand) (iii)	Toll free number portability in New Zealand	**33.3**	33.3
Money Solutions Pty Ltd	Financial advice and education services	**50.0**	50.0
HelpYouPay Systems Pty Ltd (b)	Debt management services	**-**	50.0
HelpYouPay Pty Ltd (b)	Debt management services	**-**	50.0
Enhanced Processing Technologies Pty Ltd	Business process outsourcing	**60.0**	60.0
Enhanced Processing Technologies Inc (incorporated in United States) (a)	Software sales	**-**	60.0
Adstream (Aust) Pty Ltd (a)	Digital advertising and asset management	**-**	33.3
3GIS Pty Ltd (ii)	Management services	**50.0**	50.0
3GIS Partnership (ii)	3G network services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore)	Regional roaming provider	**12.5**	12.5
m.Net Corporation Limited (c)	Mobile phone content provider	**26.4**	39.5
Associated entities			
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (ii) (c)	Network cable provider	**46.9**	39.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited (c)	Electronic transactions solutions	**47.6**	47.8
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0
LinkMe Pty Ltd	Internet recruitment provider	**40.0**	40.0

(i) This includes both the FOXTEL partnership and the FOXTEL television partnership.

(ii) Balance date is 31 December.

(iii) Balance date is 31 March.

Unless noted, all investments are incorporated in Australia.

Appendix 4E

Year ended 30 June 2006

5. Details of investments in joint ventures and associated entities (continued)

(a) Investments no longer equity accounted

- On 22 December 2005, we acquired the remaining 40% shareholding in Enhanced Processing Technologies Inc giving us a controlling interest. Prior to this date Enhanced Processing Technologies Inc was a jointly controlled entity and was equity accounted.

- On 1 February 2006, we acquired an additional 24.7% shareholding in Adstream (Aust) Pty Ltd giving us a controlling interest. Prior to this date Adstream (Aust) Pty Ltd was a jointly controlled entity and was equity accounted.

(b) Sale of investments

- On 30 July 2005, we completed the sale of our 50% shareholding in HelpYouPay Pty Ltd. The revenue on sale of the investment was not considered significant.

- On 30 July 2005, we completed the sale of our 50% shareholding in HelpYouPay Systems Pty Ltd. The revenue on sale of the investment was not considered significant.

- On 16 February 2006, we completed the sale of our 35% shareholding in Xantic B.V. for $89 million (US$67 million). During fiscal 2006, we received $18million (US$13 million) as a result of a capital return by Xantic B.V.

(c) Other changes in jointly controlled and associated entities

- On 1 July 2005, we acquired an intangible asset from our associated entity Keycorp Limited (Keycorp) for $55 million. We reduced the value of the intangible asset recognised and increased our investment in Keycorp to the extent to which this transaction is unrealised outside the Telstra Group. This resulted in a $26 million increase in the carrying value of our investment. Under the terms of the transaction, Keycorp also returned capital to its shareholders, our share amounting to $16 million.

  In addition, our investment in Keycorp decreased from 47.8% to 47.6% on 29 August 2005. The decrease was due to a dilution in our shareholding.

- On 10 August 2005, our investment in m.Net Corporation Limited decreased from 39.5% to 26.4%. The decrease was due to a dilution in our shareholding.

- On 16 November 2005, our investment in Australia-Japan Cable Holdings Limited increased from 39.9% to 46.9%. The increase was due to another investor forfeiting their interest in the investment.

Share of jointly controlled and associated entities' net (profits)/ losses

	Telstra Group	
	Year ended 30 June	
	2006	2005
	$m	$m
Net (profit)/loss from jointly controlled and associated entities has been contributed by the following entities:		
Jointly controlled entities		
- FOXTEL Partnerships	**5**	5
- Stellar Call Centres Pty Ltd.	**-**	(3)
- Xantic B.V.	**(12)**	(5)
	(7)	(3)
Associated entities		
- Keycorp Limited	**1**	(5)
- LinkMe Pty Ltd	**1**	-
	2	(5)
	(5)	(8)
Net (profit)/loss from jointly controlled entities has been adjusted by the following:		
Jointly controlled entities		
- Reach Ltd (i)	**-**	102
	(5)	94

(i) In fiscal 2005, previously recognised equity accounted losses in Reach Ltd (Reach) were recognised due to our commitment to fund 50% of Reach's committed capital expenditure, which was accounted for as an investment in Reach.

Refer note 30 in our financial statements lodged with this document for further details on our jointly controlled and associated entities.

6. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance

Balance Sheet

We continue to maintain a strong balance sheet with net assets of $12,832 million, compared with net assets of $13,658 million as at 30 June 2005. The decrease in net assets of $826 million comprised an increase in total liabilities of $1,790 million, offset by an increase in our total assets of $964 million.

The increase in total liabilities of $1,790 million was primarily due to a $930 million rise in total borrowings to fund our working capital requirements including dividend payments. In addition, our trade and other payables grew by $710 million, reflecting additional accrued expenditure associated with the roll out of the 3GSM850 network.

The increase in total assets of $964 million was mainly due to the net impact of the following movements during the year:

- our defined benefit assets increased by $782 million primarily due to the recognition of actuarial gains on the Telstra Superannuation Scheme;
- our property, plant and equipment increased by $731 million, largely due to the assets acquired in the CSL New World Mobility merger and additional capital expenditure, offset by depreciation expense; offset by
- a decrease in cash and cash equivalents of $859 million mainly due to cash required to fund financing activities.

Statement of Cash Flows

We reported a strong free cash flow position, which enabled the company to pay increased dividends and fund the acquisition of a number of new entities. We continue to source cash through ongoing operating activities and through careful capital and cash management.

Our cash flow before financing activities (free cash flow) position remains strong despite declining to $4,550 million in the year from $5,194 million in the prior year. This decline was driven by higher levels of external expenditure, and increased cash used in investing activities as we undertake our network and information technology platform transformation.

Cash used in investing activities was $4,012 million, representing an increase of $246 million over the prior year. The increase is mainly attributable to capital expenditure to upgrade our telecommunications networks, eliminate components that are no longer useful and improve the systems used to operate our networks. Our investing expenditure also includes $312 million of deferred payments in relation to our purchase of the third generation radio access network assets from Hutchison Australia Pty Ltd in fiscal 2005.

Our cash used in financing activities was $5,399 million, representing mainly the funding of dividend payments and the refinancing of our maturing debt, offset by net proceeds from borrowings received from a number of our private placements.

7. Commentary on the results for the period

Income Statement

Our net profit for the year was $3,181 million, representing a decrease of 26.2% on the prior year's net profit of $4,309 million. Earnings before interest and income tax expense (EBIT) for fiscal 2006 was $5,497 million, representing a decrease of 20.7% on the prior year result of $6,935 million.

Total revenue (excluding finance income) for the year increased by 2.7% to $22,772 million (2005: $22,181 million). Revenue growth was mainly attributable to:

- mobile goods and services growth of $284 million or 6.1%;
- an increase in Internet and IP solutions revenue of $530 million or 38.5%;
- advertising and directories revenue growth of $126 million or 7.9%; and
- an increase in pay TV bundling of $57 million or 21.7%.

These increases have been partially offset by a decline in PSTN revenues of $540 million or 6.7%. There has been a general reduction in PSTN volumes and yields have also declined due to competitive pricing pressure and continuing customer migration to other products.

Mobile goods and services revenue increased largely due to the performance of mobile's data revenue, international roaming and mobile interconnection revenues.

Internet and IP solutions revenue experienced growth due to an increase in the subscriber base for our broadband products, partially due to migration from narrowband products, but also due to growth in the overall online market.

Our advertising and directories revenue increased over the prior year due to the continued strong performance of our Yellow and White pages directories.

Pay TV bundling revenue increased due to the migration of customers to FOXTEL digital, as well as promotions during the period, offering minimal price installation and discounted packages.

Total expenses (before finance costs, income tax expense and our share of profit/(loss) from jointly controlled and associated entities) increased by 13.8% to $13,521 million from $11,884 million in the prior year. A significant portion of this increase was attributable to our redundancy and restructuring related expenses associated with the implementation of the strategic review initiatives.

7. Commentary on the results for the period (continued)

Income Statement (continued)

Labour expenses increased by 13.1% to $4,364 million (2005: $3,858 million). The higher labour costs were due to increased levels of redundancy, salary increases as part of the normal annual salary review process, a full year of ownership of several subsidiaries acquired part way through fiscal 2005 (such as KAZ and Telstra Business Systems), and acquisition of new entities such as the New World Mobility group and Adstream.

Goods and services purchased increased by 12.3% to $4,730 million in fiscal 2006 (2005: $4,211 million) due to higher cost of goods sold, mobile handsets subsidies and network payments, as well as a restructuring provision in relation to the replacement of certain items and additional customer and dealer costs associated with the shut down of our CDMA network in the future.

Depreciation and amortisation costs grew to $4,087 million or by 15.8% in fiscal 2006, primarily due to our reassessment of service lives for our assets as part of the transformation strategy. As a result, we have accelerated depreciation and amortisation on our CDMA network, switching systems, certain business and operational support systems and related software totalling $422 million for the year.

Other expenses increased by 16.0% to $4,427 million (2005: $3,815 million) due mainly to restructuring costs associated with property rationalisation, cancellation of server leases, and the decommissioning of certain IT platforms and operational and business support systems. The maintenance of the existing 3G network and the operational expenditure associated with the construction of the new 3G network, higher consultancy costs and increased market research activity due to a focus on understanding customer needs were also contributors to the increased other expenses.

Income tax expense decreased by 21.0% to $1,380 million in fiscal 2006 mainly as a result of the lower profit. The effective tax rate in the current year was 30.3% compared with the prior year rate of 28.8%. The effective tax rate increased from the prior year mainly due to the reduction in differences for partnership losses and an increase in the under provision of tax from prior periods.

Investor return and other key ratios

Our basic earnings per share decreased to 25.7 cents per share in fiscal 2006 from 34.7 cents per share in the prior year. The decrease was due to lower profit in fiscal 2006.We have declared a final fully franked dividend of 14 cents per share ($1,739 million), bringing dividends per share for fiscal 2006 to 34 cents per share. The prior year dividends amounted to 40 cents per share.

Other relevant measures of return to investors include the following:

- Return on average assets - 2006: 15.8% (2005: 20.6%)
- Return on average equity - 2006: 24.2% (2005: 30.6%)

Return on average assets is lower in fiscal 2006 primarily due to the lower profit as previously discussed. The decrease in return on average equity is also attributable to lower profit and the reduction in shareholders' equity, resulting from increased dividend payments in fiscal 2006.

Segment information

For segment reporting purposes, the Telstra Group is organised along the following segments:

- Telstra Consumer Marketing and Channels;
- Telstra Business;
- Telstra Enterprise and Government;
- Telstra International;
- Telstra Operations;
- Telstra Wholesale;
- Sensis; and
- Other (including Telstra BigPond, Telstra Media, Telstra Country Wide, Strategic Marketing and our corporate areas).

Refer note 5 to our financial statements for details on the nature of the products and services provided by these segments.

The majority of our revenue is derived from Telstra Consumer and Channels, Telstra Business, Telstra Enterprise and Government and Telstra Wholesale.

Telstra Consumer Marketing and Channels revenue decreased by 0.4% to $8,897 million in fiscal 2006. This segment experienced revenue increases due to the continued growth in mobile services, primarily international roaming, mobile data usage and handset sales. In addition, strong growth in BigPond broadband and pay television services were experienced due to increased in marketing activities and improved retention of existing customers through bundling initiatives. Offsetting growth in revenue was a decline in PSTN revenue as a result of competition, product substitution and decreased consumer usage.

Telstra Consumer Marketing and Channels EBIT decreased by 8.4% to $5,721 million in fiscal 2006 driven by expense growth in handsets, dealer costs, network payments and labour in line with revenue and customer growth in emerging products and services. In addition, EBIT was impacted by one off costs associated with renegotiating dealer contracts and redundancy and restructuring costs resulting from our transformation project.

7. Commentary on the results for the period (continued)

Segment information (continued)

Telstra Business' revenue declined by 1.5% to $3,053 million in fiscal 2006 primarily due to a decline in PSTN revenue. This segment experienced growth in mobile products including voice, data, Messagebank and international roaming, which partially offset the decrease in PSTN revenues. In addition, Internet and IP products revenue grew in fiscal 2006, reflecting the increase in broadband subscribers.

Telstra Business' EBIT decreased by 3.0% to $2,412 million in fiscal 2006 predominantly due to a decline in revenues and an increase in expenses. Expenses grew as a result of a rise in network payments, cost of goods sold and other directly variables costs associated with product offerings.

Telstra Enterprise and Government's revenue increased by 0.8% to $4,607 million in fiscal 2006, mainly due to strong growth in domestic Information and Communication Technology (ICT) services, Internet and IP products, and offshore revenues. This increase has been partially offset by reductions in sales revenue from the underlying core carriage business, consisting mainly of a decline in traditional PSTN and ISDN revenues. This segment continues to experience change in usage patterns with traditional product usage migrating to alternative access offerings such as wireless, broadband and other IP product offerings.

Telstra Enterprise and Government EBIT decreased by 3.8% to $2,706 million in fiscal 2006 reflecting a changing product mix, which resulted in reductions in sales volumes of higher margin core access technologies, and growth in lower margin ICT services and offshore revenues.

Telstra Wholesale revenue increased by 15.0% to $2,607 million in fiscal 2006 driven by continuing demand for broadband and data services, new growth relating to Hutchinson's 3G partnership network extension and an increase in wholesale basic access revenues. Telstra Wholesale experienced significant revenue growth in several products such as facilities access as a variety of carriers extend their DSL capabilities in preparation for building their own infrastructure via unconditioned local loop and spectrum sharing. Data and Internet service revenues also showed solid growth, which was mainly driven by wholesale broadband offerings and associated ISP related data carriage and transmission services. Growth in revenue was partly offset by a decrease in local call revenues due to ongoing product substitution to mobiles and broadband.

Telstra Wholesale EBIT increased by 18% to $2,693 million in fiscal 2006 compared with $2,283 million in fiscal 2005. The increase in EBIT was driven by revenue growth, and a decrease in expenses. The expense decline consisted of a decrease in Telstra Wholesale's allocated share of domestic outpayments, reflecting lower rates and a decrease in international voice traffic expenses, which was assisted by an appreciating Australian dollar. Lower labour costs was due to the decrease in staff numbers as part of our transformation project and the movement of staff to other areas in Telstra as part of overall business restructure. In addition, service contract costs were lower due to the discontinuation of the payment incentive rebates with certain customers. The expense decline was partly offset by increased IT professional services costs driven by growth in system support and automation costs to deliver ongoing operational productivity and revenue growth.

Other information

No significant events have occurred after balance date for the year ended 30 June 2006, other than:

Dividend declaration

On 10 August 2006, the directors of Telstra Corporation Limited declared a fully franked final dividend of 14 cents per ordinary share. The record date for the final dividend will be 25 August 2006 with payment to be made on 22 September 2006. Shares will trade excluding the entitlement to the dividend on 21 August 2006.

A provision for dividend payable has been raised as at the date of declaration, amounting to $1,739 million. The final dividend will be fully franked at a tax rate of 30%. The financial effect of the dividend declaration was not brought to account as at 30 June 2006.

There are no income tax consequences for the Telstra Group and Telstra Entity resulting from the declaration and payment of the final ordinary dividend, except for $745 million of franking debits arising from the payment of this dividend that will be adjusted for in our franking account balance.

FOXTEL loan facility

On 31 July 2006, our 50% owned pay television joint venture FOXTEL entered into a new $600 million syndicated secured term loan facility to fund the refinancing of previous loan facilities (including the $550 million syndicated facility), and to enable it to meet future cash flow and expenditure requirements.

The equity contribution deed (ECD) entered into by us and FOXTEL's other ultimate shareholders, News Corporation Limited and Publishing and Broadcasting Limited has been terminated.

Under this arrangement, recourse to our controlled entity Telstra Media Pty Ltd, as a FOXTEL partner, is limited to the assets of the FOXTEL Partnerships.

8. Statement about the audit status

Our preliminary final report is based on the Telstra Corporation Limited and controlled entities financial report as at 30 June 2006, which has been audited by the Australian National Audit Office (ANAO). Refer to the 30 June 2006 financial report for the independent audit report to the members of Telstra Corporation Limited.

9. Adoption of International Financial Reporting Standards

Australian entities reporting under the Corporations Act 2001 are required to prepare their financial reports for financial years commencing on or after 1 January 2005 under the Australian equivalents of International Financial Reporting Standards (A-IFRS) as adopted by the Australian Accounting Standards Board (AASB). We implemented accounting policies in accordance with A-IFRS on 1 July 2004, except for those relating to financial instruments, which were implemented on 1 July 2005.

The transitional rules for first time adoption of A-IFRS required that we restate our comparative financial report using A-IFRS, except for AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement", where comparative information was not required to be restated. In addition, we have elected to early adopt AASB 7: "Financial Instruments: Disclosures", which supersedes the disclosure requirements of AASB 132.

Comparatives were remeasured and restated for the financial year ended 30 June 2005. Most of the adjustments on transition were made to opening retained profits at the beginning of the first comparative period (ie. at 1 July 2004), except for the accounting policies in respect of financial instruments which required adoption from 1 July 2005.

Our adoption of A-IFRS has impacted the accounting policy and reported amounts of the following items:

- share based payments;
- business combinations;
- income taxes;
- property, plant and equipment;
- leases;
- employee benefits;
- changes in foreign exchange rates;
- borrowing costs;
- investments in associates and joint ventures;
- impairment of assets;
- intangible assets; and
- financial instruments.

Reconciliations and descriptions of the impact of transition to A-IFRS on the Telstra Group income statement, balance sheet and statement of cash flows are provided in note 36 of the full financial report lodged with this document.

Other than the adoption of A-IFRS, we have had no significant change in accounting policy during fiscal 2006 and fiscal 2005.