



Telstra Corporation Limited and controlled entities

Results and operations review

Year ended 30 June 2007

Results ahead of guidance, company transformation on time and on track

Results

- Sales revenue grew by 4.2% or \$961 million to \$23,673 million
- Total income (excl. finance income) grew by 3.9% or \$898 million to \$23,960 million
- Operating expenses (before depreciation and amortisation) grew by 4.4% or \$600 million to \$14,092 million
- EBIT grew by 5.1% or \$282 million to \$5,779 million
- EBIT excluding the impairment of the Trading Post mastheads grew by 7.1% to \$5,889 million
- Profit for the year grew by 2.9% or \$92 million to \$3,275 million

- Cash operating capital expenditure (excluding investments) of \$5,652 million, up 32.8%
- Free cashflow declined by 36.7% or \$1,680 million to \$2,899 million
- Basic earnings per share of 26.3 cents, up 2.3% or 0.6 cents
- Final ordinary dividend declared of 14 cents per share, fully franked

- Mobiles revenue grew by 13.9% or \$695 million to \$5,701 million
- Retail Broadband revenue grew 66.2% or \$483 million to \$1,213 million
- Sensis external income grew by 8.0% or \$147 million to \$1,974 million
- PSTN revenue declined by 4.1% or \$309 million to \$7,190 million, including a slowing second half decline of 2.5%

Full year results and operations review - June 2007

Financial Highlights Year ended 30 June 2007

Results ahead of guidance, company transformation on time and on track

Telstra Corporation Limited and its controlled entities (Telstra) reported profit after tax of \$3,275 million for the year ended 30 June 2007, an increase of 2.9% on the prior year. Basic earnings per share (EPS) increased from 25.7 cents to 26.3 cents. Earnings before interest and tax (EBIT) increased by 5.1% to \$5,779 million.

EBIT margin increased by 0.2 percentage points to 24.4%, while EBITDA margin decreased by 0.5 percentage points to 41.7% as expected while undergoing the largest spend year on our transformation.

Income

Total income grew by 3.9% or \$898 million in the current year to \$23,960 million. Revenue growth was achieved through increases in mobiles, broadband, CSL New World, advertising and directories and IP access. Growth was partially offset by a decline in PSTN of 4.1%, with a decline in total fixed telephony of 3.2%, as well as declines in specialised data, narrowband and TelstraClear. The PSTN decline has continued to slow with a very strong result in the second half of the year.

In assessing the performance of the mobiles and broadband products throughout these financial highlights we have changed the presentation from the prior year. As wireless data cards operate on the mobile network and provide a broadband service we have grossed up the mobile and broadband revenues and physicals to include the results from EVDO and Next G™ data cards and data packs (\$5 to \$179). The elimination of the grossed up component is shown separately in the operating revenue summary on page 11.

Expenses

Operating expenses (before depreciation and amortisation) increased by 4.4% or \$600 million in the current year to \$14,092 million due to higher goods and services purchased, particularly subscriber acquisition and recontracting costs supporting revenue growth, and increases in other expenses mainly due to transformation activity, increased promotions and advertising expenses and added expenses from entities acquired. This was offset by reduced labour costs as a result of lower staff numbers and use of the redundancy provision raised in fiscal 2006. Total expenses (before interest and tax) increased by 3.5%, which includes depreciation and amortisation growth of 0.1% and a write down of the Trading Post mastheads.

Net finance costs grew by 16.5% to \$1,087 million due to higher average net debt levels and increasing interest rates.

Income tax expense increased by 2.6% to \$1,417 million.

Business transformation

The business transformation is on time and on track. Some of the milestones achieved during the year include the launch of the Telstra Next IP™ and Next G™ networks, ADSL 2+ launch, customer service improvements and benefits achieved from market based management initiatives (including subscription pricing). Key productivity metrics continue to improve with technician productivity up 17%, revisits down 36%, front of house clearance rates improving 12% and we have seen more efficient scheduling through the use of GPS. Our call centre integrated desktop is delivering benefits with login times down, and lower transaction keying and error rates. In addition, the Telstra Learning Academy is equipping staff with the skills needed to continue to transform the business and we have already had 12 thousand staff pass through in just 11 months.

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We've started reducing the complexity in our business and have capped or exited 124 network platforms in addition to exiting approximately 132 IT systems. We are starting to see the benefits from our revenue acceleration program, including broadband and mobiles growth, a reduction in PSTN decline and growth in Sensis revenues. However, we are only 19 months into our 5 year transformation plan and there is still a lot of work to be done.

The key financial impacts of transformation that you will see throughout this document include the following:

- Labour costs - we have achieved a significant reduction in our total workforce numbers, with reductions in the number of contractors, agency staff and employed staff. This has had a positive impact on our salary and wage expense. Redundancy expenses have also declined for the year as costs associated with transformation were charged against the provision for redundancy raised at the end of fiscal 2006;
- Provision for restructuring and redundancy costs - under Australian accounting standards we made provision in fiscal 2006 for the expected costs of restructuring the business as part of our transformation. The total provision raised in June 2006 was \$427 million. As at 30 June 2007, the remaining balance of the provision was \$232 million;
- Depreciation - we have accelerated the rate of depreciation of certain network and IT assets due to our intended retirement of some parts of the network and rationalisation of many of our IT platforms and software applications. This component has contributed \$297 million (2006: \$422 million) to our total depreciation and amortisation expenditure; and
- Other various operational costs have been impacted by the implementation of business transformation for the year as highlighted throughout the document. In total, transformation costs resulted in a decrease in overall expenses of \$413 million from the prior year primarily due to the redundancy and restructuring provision raised in fiscal 2006. Including capital expenditure, fiscal 2007 is the highest spend year of our total transformation program.

Changes to accounting treatments

We have applied UIG 4: "Determining Whether an Arrangement Contains a Lease" (UIG 4) to the results reported for the first time in the year ended 30 June 2007. This UIG has impacted both the recognition and classification of some items in our income statement, balance sheet and statement of cash flows. Prior period comparative numbers have been restated where appropriate to reflect the impact of adoption of UIG 4. For detailed information regarding the impact of UIG 4 on our financial information, refer to the June 2007 financial statements. These are available on our investor relations website at www.telstra.com.au/abouttelstra/investor. These impacts have not had a material effect on earnings.

Cash flow

Operating cash flow less investing cash flow (free cash flow) decreased by 36.7% for the year ended 30 June 2007 to \$2,899 million. This decline was due to a reduction in net cash provided by operating activities driven by higher levels of external expenditure, and increased cash used in investing activities as we launched our Next IP™ and Next G™ networks and continued working on the IT transformation.

Full year results and operations review - June 2007

Capital expenditure

Cash capital expenditure (including investments) for the year ended 30 June 2007 increased by 39.0% to \$5,982 million. Cash operating capital expenditure (excluding investments) increased by 32.8% to \$5,652 million. Higher capital expenditure was driven primarily by the IP enablement of our network, IT transformation, as well as the roll out of the Telstra Next IP™ and Next G™ networks. There was also an increase in our acquisitive investment expenditure by \$282 million largely related to our acquisition of SouFun, China's leading real estate and home furnishing and improvement website. This was offset by the sale of our investment in the Australian Administrative Services group.

Treasury operations

Telstra's financial position remains strong with current long-term credit ratings as of July 2007 of A, A2 and A+ from S&P, Moody's and Fitch respectively. All three rating agencies have Telstra on a "negative outlook" with major factors being uncertainty surrounding the regulatory environment, intensifying competition, technological advances, PSTN revenue declines and risk associated with the company transformation.

The net debt position was \$14,586 million, a \$1,564 million increase on the equivalent balance at 30 June 2006, largely driven by lower net cash produced from the ongoing operations of the business and the higher capital cash demands from our transformation investment. The balance sheet continues to have strong capital settings.

Dividend

A fully franked final ordinary dividend of 14 cents per share has been declared and is payable on 21 September 2007 bringing the fully franked ordinary dividends for fiscal 2007 to 28 cents per share. No decision has been made with respect to the payment or funding of future ordinary dividends. The amount of dividends declared for any year is a decision for the Board to make twice a year in its normal cycle having regard to our earnings and cash flows as well as future regulatory impacts and all other factors that affect our operations.

A Telstra dividend reinvestment plan was announced in July 2007 and allows shareholders in Telstra to reinvest all or part of the dividends payable on their fully paid ordinary shares or instalment receipts in additional fully paid ordinary shares in the company. More information on the Telstra dividend reinvestment plan is available on our investor relations website at www.telstra.com.au/abouttelstra/investor.

Outlook

At the end of the financial year, we were only 19 months into our 5 year transformation strategy announced back in November 2005. Fiscal 2007 was the peak transformation spend year as we invested in building next generation platforms to reduce complexity and improve our customer experience. We have passed an earnings pivot point, and expect our earnings to continue to grow in fiscal 2008. We continue to win in key markets including mobiles, broadband, Sensis and PSTN.

Our investment in next generation platforms will enable us to leverage the growth opportunities from our integrated portfolio of media communications assets - including BigPond, Sensis and FOXTEL. The fiscal 2008 year will also present challenges as we continue our transformation programme - we expect to release the first phase of our IT transformation later this calendar year. At the same time we will continue to compete and win across the market.

We have laid a solid foundation since we started the transformation, but the company is experiencing a combination of regulator driven wholesale price reductions and Government subsidisation of competitors, and as a result, we expect fiscal 2008 revenue growth to be between 2.0% to 3.0% and prudently expect EBITDA growth of between 2.0% to 3.0% and EBIT growth between 3.0% and 5.0%.

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The investment in the network and IT base in fiscal 2007 and planned investment in fiscal 2008 will produce an increase in depreciation and amortisation. The impact of the accelerated depreciation and amortisation in fiscal 2007 will be reduced going forward and we expect depreciation and amortisation to remain around \$4 billion in fiscal 2008.

The half-yearly profile of transformation spend will result in a slight decline in EBITDA in the first half.

Cash flow is expected to improve in the coming years as our capital expenditure decreases (assuming we do not invest in fibre-to-the-node). Capital expenditure guidance for fiscal 2008 is on an accrual basis. Our operating capital expenditure is expected to be in the range of \$4.6 billion to \$4.9 billion in fiscal 2008.

Our long term management objectives remain unchanged.

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Summary financial information

Results of operations

Results of operations

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Sales revenue	23,673	22,712	961	4.2%
Other revenue	36	22	14	63.6%
Total revenue	23,709	22,734	975	4.3%
Other income	251	328	(77)	(23.5%)
Total income (excl. finance income)	23,960	23,062	898	3.9%
Labour	4,017	4,364	(347)	(8.0%)
Goods and services purchased	5,151	4,701	450	9.6%
Other expenses	4,924	4,427	497	11.2%
Operating expenses	14,092	13,492	600	4.4%
Share of net loss/(gain) from jointly controlled and associated entities	7	(5)	12	(240.0%)
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	9,861	9,575	286	3.0%
Depreciation and amortisation	4,082	4,078	4	0.1%
Earnings before interest & income tax expense (EBIT)	5,779	5,497	282	5.1%
Net finance costs	1,087	933	154	16.5%
Profit before income tax expense	4,692	4,564	128	2.8%
Income tax expense	1,417	1,381	36	2.6%
Profit for the year	3,275	3,183	92	2.9%
Attributable to:				
Telstra Entity	3,253	3,183	70	2.2%
Minority interest	22	-	22	n/m
	3,275	3,183	92	2.9%
Effective tax rate	30.2%	30.3%		(0.1)
EBITDA margin on sales revenue	41.7%	42.2%		(0.5)
EBIT margin on sales revenue	24.4%	24.2%		0.2
	cents	cents	Change cents	% change
Basic earnings per share (i)	26.3	25.7	0.6	2.3%
Diluted earnings per share (i)	26.2	25.7	0.5	1.9%
Dividends paid or declared:				
Interim dividend	14.0	14.0		
Special dividend paid with interim dividend	-	6.0		
Final dividend	14.0	14.0		
Total	28.0	34.0		

(i) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.

n/m - not meaningful

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Balance sheet

Balance sheet

	As at			
	30-Jun-07 \$m	30-Jun-06 \$m	Change \$m	2007/2006 (% change)
Current assets				
Cash and cash equivalents	823	689	134	19.4%
Trade and other receivables	3,891	3,721	170	4.6%
Inventories	332	224	108	48.2%
Derivative financial assets	41	21	20	95.2%
Other assets	266	244	22	9.0%
Total current assets	5,353	4,899	454	9.3%
Non current assets				
Trade and other receivables	190	146	44	30.1%
Inventories	17	20	(3)	(15.0%)
Investments	19	23	(4)	(17.4%)
Property, plant and equipment	24,607	23,592	1,015	4.3%
Intangibles	6,625	6,123	502	8.2%
Deferred tax asset	1	1	-	-
Derivative financial assets	249	391	(142)	(36.3%)
Defined benefit assets	814	1,029	(215)	(20.9%)
Total non current assets	32,522	31,325	1,197	3.8%
Total assets	37,875	36,224	1,651	4.6%
Current liabilities				
Trade and other payables	4,207	3,570	637	17.8%
Borrowings	2,743	1,982	761	38.4%
Current tax liabilities	449	428	21	4.9%
Provisions	628	737	(109)	(14.8%)
Derivative financial liabilities	177	12	165	1375.0%
Revenue received in advance	1,230	1,170	60	5.1%
Total current liabilities	9,434	7,899	1,535	19.4%
Non current liabilities				
Trade and other payables	195	197	(2)	(1.0%)
Borrowings	11,619	11,442	177	1.5%
Deferred tax liabilities	1,513	1,705	(192)	(11.3%)
Provisions	834	974	(140)	(14.4%)
Derivative financial liabilities	1,328	768	560	72.9%
Revenue received in advance	372	405	(33)	(8.1%)
Total non current liabilities	15,861	15,491	370	2.4%
Total liabilities	25,295	23,390	1,905	8.1%
Net assets	12,580	12,834	(254)	(2.0%)
Equity				
Equity available to Telstra entity shareholders	12,329	12,588	(259)	(2.1%)
Minority interest	251	246	5	2.0%
Total equity	12,580	12,834	(254)	(2.0%)
Gross debt	15,440	13,712	1,728	12.6%
Net debt	14,586	13,022	1,564	12.0%
EBITDA interest cover (times)	9.1	10.3	(1.2)	(11.7%)
Net debt to EBITDA	1.5	1.4	0.1	7.1%
Return on average assets	15.9%	15.7%		0.2
Return on average equity	26.1%	24.3%		1.8
Return on average investment	21.8%	21.0%		0.8
Net debt to capitalisation	53.7%	50.4%		3.3

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Cash flow summary

Cash flow summary

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Receipts from customers (inclusive of GST)	26,187	25,191	996	4.0%
Payments to suppliers and to employees (inclusive of GST)	(16,049)	(14,756)	(1,293)	8.8%
Net cash generated by operations	10,138	10,435	(297)	(2.8%)
Income taxes paid	(1,618)	(1,882)	264	(14.0%)
Net cash provided by operating activities	8,520	8,553	(33)	(0.4%)
Payments for property, plant and equipment	(4,657)	(3,636)	(1,021)	28.1%
Payments for intangibles	(995)	(619)	(376)	60.7%
Capital expenditure before investments	(5,652)	(4,255)	(1,397)	32.8%
Investment expenditure	(330)	(48)	(282)	587.5%
Capital expenditure	(5,982)	(4,303)	(1,679)	39.0%
Receipts from asset sales/other proceeds/dividends	329	255	74	29.0%
Repayment of loan to jointly controlled and associated entities	(24)	-	(24)	n/m
Interest received	56	74	(18)	(24.3%)
Net cash used in investing activities	(5,621)	(3,974)	(1,647)	41.4%
Operating cash flows less investing cash flows	2,899	4,579	(1,680)	(36.7%)
Movements in borrowings/finance leases	1,760	469	1,291	275.3%
Staff repayments of share loans	18	24	(6)	(25.0%)
Purchase of shares for employee share plans	-	(6)	6	-
Finance costs paid	(1,056)	(945)	(111)	11.7%
Dividends paid	(3,479)	(4,970)	1,491	(30.0%)
Net cash used in financing activities	(2,757)	(5,428)	2,671	(49.2%)
Net increase/(decrease) in cash	142	(849)	991	(116.7%)

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Segment information

Segment information

	Segment revenue			Segment EBIT		
	Year ended 30 June			Year ended 30 June		
	2007 \$m	2006 \$m	Change %	2007 \$m	2006 \$m	Change %
Telstra Consumer, Marketing and Channels	9,509	8,879	7.1%	5,593	5,634	(0.7%)
Telstra Business	3,241	3,163	2.5%	2,592	2,541	2.0%
Telstra Enterprise and Government	4,529	4,531	(0.0%)	2,609	2,636	(1.0%)
Telstra Wholesale	2,957	2,902	1.9%	2,867	2,694	6.4%
Sensis	1,968	1,835	7.2%	752	863	(12.9%)
Telstra International	1,606	1,481	8.4%	61	156	(60.9%)
Telstra Operations	243	307	(20.8%)	(3,913)	(4,173)	6.2%
Other (i)	108	116	(6.9%)	(4,827)	(4,883)	1.1%
Eliminations	(452)	(480)	5.8%	45	29	55.2%
Total Telstra (ii)	23,709	22,734	4.3%	5,779	5,497	5.1%

(i) Results for the Other segment consists primarily of business unit results that do not qualify as segments in their own right. The Asset Accounting Group is the main contributor to the segment EBIT for this segment, which is primarily depreciation and amortisation charges.

(ii) For segment reporting purposes, certain items are disclosed or may be reallocated between business units as required by the applicable accounting standard, and as a result may differ from our internal reporting framework. There are also certain items that are not reallocated to segments due to the management accountability framework or our internal reporting systems as follows:

- Sales revenue associated with mobile handsets for the Consumer, Business and Enterprise and Government segments are allocated to the Consumer segment. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in all three of these segments depending on the type of customer serviced. In addition, the majority of goods and services purchased associated with our mobile revenues are allocated to the Consumer segment;
- Revenue received in advance in relation to installation and connection fees is allocated totally to Consumer; and
- Revenue derived from our BigPond Internet products are recorded in the customer facing business segments of Consumer, Business and Enterprise and Government. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognise certain expenses in relation to the installation and running of the broadband cable network. In accordance with our application of the business segment definition in relation to customer type, we have not reallocated these items to the Telstra BigPond business segment.

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Statistical data summary (i)

Statistical data summary

	Year ended 30 June			
	2007	2006	Change	% change
Fixed telephony statistical data				
Basic access lines in service (in millions)				
Residential	5.53	5.47	0.06	1.1%
Business	2.25	2.31	(0.06)	(2.6%)
Total retail customers	7.78	7.78	-	-
Domestic wholesale	1.98	2.16	(0.18)	(8.3%)
Total basic access lines in services (in millions)	9.76	9.94	(0.18)	(1.8%)
Billable traffic data (in millions)				
Local calls (number of calls)	6,528	7,432	(904)	(12.2%)
National long distance minutes	7,130	7,215	(85)	(1.2%)
Fixed to mobile minutes	4,687	4,491	196	4.4%
International direct minutes	528	534	(6)	(1.1%)
ISDN access (basic lines equivalents) (in thousands)	1,172	1,214	(42)	(3.5%)
Billable traffic data (in millions)				
Inbound calling products - B party minutes	2,635	2,922	(287)	(9.8%)
Inbound calling products - A party calls	1,008	1,012	(4)	(0.4%)
Mobile services statistical data				
Mobile services in operation (SIO) (in thousands)				
3GSM	2,003	317	1,686	531.9%
2GSM	5,947	6,468	(521)	(8.1%)
CDMA	1,262	1,744	(482)	(27.6%)
Mobile services in operation (in thousands)	9,212	8,529	683	8.0%
Total wholesale mobile SIOs (in thousands)	131	119	12	10.1%
Billable traffic data (in millions)				
Mobile voice telephone minutes	8,640	7,361	1,279	17.4%
Number of short messaging service (SMS) sent	4,902	3,019	1,883	62.4%
Internet statistical data				
Online subscribers (in thousands)				
Broadband subscribers - retail	2,406	1,506	900	59.8%
Broadband subscribers - wholesale	1,762	1,427	335	23.5%
Total broadband subscribers	4,168	2,933	1,235	42.1%
Narrowband subscribers	654	1,027	(373)	(36.3%)
Total online subscribers (in thousands)	4,822	3,960	862	21.8%
Total FOXTEL subscribers (in thousands)	1,265	1,129	136	12.0%
Employee data				
Domestic full time staff	35,706	37,599	(1,893)	(5.0%)
Full time staff and equivalents	43,411	44,452	(1,041)	(2.3%)
Total workforce	47,840	49,443	(1,603)	(3.2%)

(i) Refer detail of data included in each product section.

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Income

Income

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Fixed telephony				
Basic access	3,333	3,317	16	0.5%
Local calls	845	1,023	(178)	(17.4%)
PSTN value added services	257	246	11	4.5%
National long distance calls	808	913	(105)	(11.5%)
Fixed to mobile	1,487	1,490	(3)	(0.2%)
International direct	184	201	(17)	(8.5%)
Fixed interconnection	276	309	(33)	(10.7%)
Total PSTN products	7,190	7,499	(309)	(4.1%)
ISDN products	749	806	(57)	(7.1%)
Inbound calling products	413	414	(1)	(0.2%)
Payphones	92	104	(12)	(11.5%)
Customer premises equipment	318	274	44	16.1%
Intercarrier access services	181	152	29	19.1%
Other fixed telephony	317	318	(1)	(0.3%)
Total fixed telephony	9,260	9,567	(307)	(3.2%)
Mobiles				
Mobile services - retail	4,932	4,503	429	9.5%
Mobile services - wholesale	51	36	15	41.7%
Total mobile services	4,983	4,539	444	9.8%
Mobile handsets	718	467	251	53.7%
Total mobiles	5,701	5,006	695	13.9%
Internet				
Narrowband	144	220	(76)	(34.5%)
Retail broadband	1,213	730	483	66.2%
Wholesale broadband	568	469	99	21.1%
Other	20	18	2	11.1%
Total internet	1,945	1,437	508	35.4%
IP & data access				
Internet direct	157	143	14	9.8%
Specialised data	796	884	(88)	(10.0%)
IP access	443	342	101	29.5%
Wholesale internet & data	231	215	16	7.4%
Total IP & data access	1,627	1,584	43	2.7%
Business services and applications	1,053	1,055	(2)	(0.2%)
Advertising and directories	1,835	1,711	124	7.2%
CSL New World	1,000	830	170	20.5%
TelstraClear	573	620	(47)	(7.6%)
Offshore services revenue	348	295	53	18.0%
Pay TV bundling	344	320	24	7.5%
Other minor items	271	360	(89)	(24.7%)
Elimination for wireless broadband	(284)	(73)	(211)	289.0%
Sales revenue	23,673	22,712	961	4.2%
Other revenue	36	22	14	63.6%
Total revenue	23,709	22,734	975	4.3%
Other income	251	328	(77)	(23.5%)
Total income	23,960	23,062	898	3.9%

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Income Summary

In the following discussion, we analyse revenue for each of our major products and services. The principal areas of operating revenue growth for fiscal 2007 were:

- mobiles reflecting the continued growth in the number of subscribers particularly the increased demand for 3GSM services, and growth in data services and higher minutes of use;
- broadband due to a significant increase in our subscriber base partially due to migration from narrowband products but also an increased market share and overall growth in the online market, and customers continued demand for applications and content;
- advertising and directories due to the introduction of new initiatives within the print directories, strong online customer usage and the purchase of SouFun in August 2006 and Adstream in February 2006;
- CSL New World due to additional revenue received as a result of the merger between Hong Kong CSL and New World PCS in fiscal 2006; and
- IP access driven primarily by the increased use of IP services by business customers (medium and large enterprises), the introduction of new products to meet customer needs and the increased use of the internet by businesses at greater bandwidth;

partially offset by a decline in:

- specialised data as a result of products entering the mature phase of their product lifecycle with customers moving to better business solutions in IP access products;
- narrowband due to migration to broadband; and
- ISDN due to a reduction in voice calls revenue as a result of pricing pressures and lower minutes of use, and decreased data calls revenue due to migration to alternative products such as ADSL, BDSL and symmetrical HDSL.

PSTN products revenue has also declined as customers continue to move towards alternative products and services to satisfy their requirements. However it is now declining at a lower rate than that experienced in prior periods. Specifically, the decline in retail access lines in service held steady for the first time since fiscal 2001 due to the introduction of subscription pricing plans and other market based management initiatives resulting in a substantial turnaround in retail resale churn results.

We continue to see a shift in revenue from our traditional higher margin products (such as PSTN) to the new generation of consumer products (such as mobiles and broadband). In the latter area we have had three significant launches in fiscal 2007 with the launch of our Next G™ mobile broadband network, Next IP™ (our fully integrated national IP network) and ADSL 2+ high speed broadband product offering. In the second half of fiscal 2006, we also introduced our first subscription based price offers into the consumer PSTN market to help address the decline of our PSTN revenues and to make pricing simple for our customers. This was followed in the small to medium business area where we also launched subscription pricing plans during fiscal 2007. We have also rolled out market based management throughout our business to enable us to better serve our customers as we better understand their needs. These initiatives are showing positive signs in our revenue results as detailed above and throughout the financial highlights.

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Fixed telephony

Fixed telephony

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
PSTN products	7,190	7,499	(309)	(4.1%)
ISDN products	749	806	(57)	(7.1%)
Inbound calling products	413	414	(1)	(0.2%)
Payphones	92	104	(12)	(11.5%)
Customer premises equipment	318	274	44	16.1%
Intercarrier access services	181	152	29	19.1%
Other fixed telephony	317	318	(1)	(0.3%)
Total fixed telephony revenue	9,260	9,567	(307)	(3.2%)

PSTN products

PSTN products

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Basic access revenue:				
- Retail	2,587	2,591	(4)	(0.2%)
- Domestic wholesale	746	726	20	2.8%
Total basic access revenue	3,333	3,317	16	0.5%
Local call revenue	845	1,023	(178)	(17.4%)
PSTN value added services revenue	257	246	11	4.5%
National long distance call revenue	808	913	(105)	(11.5%)
Fixed to mobile revenue	1,487	1,490	(3)	(0.2%)
International direct revenue	184	201	(17)	(8.5%)
Fixed interconnection	276	309	(33)	(10.7%)
Total PSTN products revenue	7,190	7,499	(309)	(4.1%)
Basic access lines in service (in millions)				
Residential	5.53	5.47	0.06	1.1%
Business	2.25	2.31	(0.06)	(2.6%)
Total retail	7.78	7.78	-	-
Domestic wholesale	1.98	2.16	(0.18)	(8.3%)
Total access lines in service	9.76	9.94	(0.18)	(1.8%)
Average revenue per user per month \$'s	60.83	62.30	(1.47)	(2.4%)
Number of local calls (in millions)	6,528	7,432	(904)	(12.2%)
National long distance minutes (in millions) (i)	7,130	7,215	(85)	(1.2%)
Fixed to mobile minutes (in millions)	4,687	4,491	196	4.4%
International direct minutes (in millions)	528	534	(6)	(1.1%)

Note: statistical data represents management's best estimates.

(i) Includes national long distance minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as mobiles, ISDN and virtual private networks.

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Total PSTN products revenue declined by 4.1% to \$7,190 million during fiscal 2007. This decline has slowed when compared with the 6.8% decline in fiscal 2006. In the second half of fiscal 2007, our PSTN revenue only declined by 2.5% compared with the prior corresponding period, showing a significant improvement on the first half year decline of 5.6%. In particular, total retail access lines in service stopped declining and held steady for the first time since fiscal 2001.

During the second half of fiscal 2006, we introduced subscription pricing plans for our PSTN customers, which offer greater choice and value from the home phone, including untimed national long distance calls and low or no charge local calls. Overall, these plans have impacted positively on our PSTN revenue performance for the current fiscal year, as evidenced by the significantly slowed decline in PSTN revenue and the number of retail access lines holding steady. We have also introduced market based management initiatives which focused on targeting individual customer segments and understanding their unique needs. Such initiatives, together with subscription based plans and an increase in multi-product holding numbers during the fiscal year, have contributed positively to our PSTN revenue performance. Notably, the decline in fixed to mobile revenue was contained at 0.2%, compared with a decline of 4.9% during the prior corresponding period. Our PSTN retail churn has also turned positive in fiscal 2007.

Challenges still exist in the PSTN market. With the exception of fixed to mobile minutes, there has been a general reduction in PSTN volumes. There was also a decline in total basic access lines for the fiscal year, although the retail lines held steady. Volumes have reduced across local calls, national long distance calls, international direct calls and fixed interconnection. Yields have also declined in local calls, national long distance calls, fixed to mobile calls and international direct calls due to competitive pricing pressure, higher demand for alternative products, as well as the impact of newly introduced subscription pricing plans on certain categories as discussed below.

Basic access

Our basic access revenue includes monthly rental fees, installation charges and connection charges, from telephone service connections between a customer's premises and our PSTN network.

Basic access revenues are affected by:

- demand for telephone services and additional lines;
- competition;
- regulatory constraints in relation to wholesale basic access;
- migration to other products such as broadband and mobiles;
- housing growth; and
- price changes.

Under our basic access pricing structure, we have a range of access and call pricing packages to give our residential and business customers choice in the plan they select, along with a range of reward options. These pricing packages are reviewed regularly to reflect the changing needs of customers. For the most part, wholesale customers receive the pricing plan which only incorporates the basic telephone service with local call rates, excluding long distance and fixed to mobile calls (with a "residential" and "business" differentiation still applying).

Our revenue from basic access services has increased slightly by 0.5% to \$3,333 million, an improvement from a decline of 1.3% in fiscal 2006. Retail basic access lines have remained at the same level seen in the prior fiscal year, which is a considerable improvement from a decline of 3.4% in fiscal 2006. Retail churn results are positive at the end of fiscal 2007 and we have experienced positive retail churn since October 2006. Despite strong competition and migration to alternative products such as ULL (unconditioned local loop), broadband and mobiles, our number of residential access lines actually increased by 1.1%. Our business basic access lines decreased slightly by 2.6%. The loss of access lines in

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service came from the Wholesale business, which has declined by 8.3%, compared with growth of 4.3% in fiscal 2006, highlighting the churn impact between our retail and wholesale businesses and the impact of ULL. As a result, our total basic access lines declined by 1.8%.

We introduced new subscription based plans in April 2006, where customers pay a fixed price for a range of PSTN services including access charges. Such HomeLine® plans, including HomeLine® Ultimate, HomeLine® Together and HomeLine® Reach, have contributed positively by containing the decline in the number of retail access lines and guaranteeing a fixed amount of return per access line. 364 thousand residential services are now on HomeLine® subscription based plans, representing 6.6% of our residential subscriber base.

The rental revenue has also increased slightly due to a rise in line rental price charges from December 2005, which included a rise in basic access prices for wholesale and non preselected retail residential customers. Price increases for new service connections have also contributed to increased revenue. Partly offsetting this was an increase in the discounts to whole of business customers and pensioners on certain plans.

Local calls

Our local call revenue from local call charges, consists of revenue from local calls on our PSTN network and includes revenue from our MegaPop product which allows ISPs to offer untimed local call PSTN dial-up access for their customers via a single national dial-up 019 number. For the most part we charge for local calls without a time limit.

Our local call revenue is affected by:

- customers migrating to other access services, such as mobiles, broadband and fixed to mobile calling, which no longer require the use of local calls;
- the number of basic access lines in service;
- increasing use of email;
- competition; and
- pricing changes.

Local call revenue decreased by 17.4% to \$845 million, with both our retail and wholesale revenues being negatively impacted by ongoing product substitution from fixed calling to mobile voice calls and SMS, which is accelerated by the take up of capped mobile plans that have been heavily promoted by competitors. Substitution of data local calls continues to occur due to the migration of narrowband internet customers to broadband.

Generally, call volumes have continued to fall with a reduction in calls made by 12.2%, reflecting the impact of customers migrating to other products discussed above and a reduction of average number of calls per customer. Call volumes again declined at a faster rate than the decline in the number of total lines in service. Prices have also fallen due to ongoing discounting and the impact of some subscription based pricing plans which offer free local calls as part of the package, such as HomeLine® Ultimate and HomeLine® Together.

PSTN value added services

PSTN value added services revenue consists of a range of residential and business call completion and complex products such as MessageBank®, silent lines, calling number display and call return.

Our revenue from PSTN value added services increased by 4.5% to \$257 million during the fiscal year.

Messaging and call completion products increased by 9.8% to \$181 million. Most of the growth has been driven by EasyCall revenue reflecting higher revenue as a result of the inclusion of EasyCall features as a standard part of higher

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value subscription based plans such as HomeLine® Ultimate. Similarly, our voice messaging revenue has also grown due to the impact of subscription pricing.

National long distance calls

Our revenue from national long distance consists of revenue from national long distance calls made from our PSTN network to any fixed network.

We generally charge for national long distance calls based on the time of day, day of week, destination and duration of the call, but packages are also offered on a capped price basis and under subscription pricing arrangements. For instance, under the HomeLine® Ultimate plans, national long distance calls are offered at no additional charges as part of the package. A variety of promotions and pricing options are offered to encourage our customers to use our service and to inform them about the price and value of our service.

Customer perceptions about the cost and value of our service relative to competitor alternatives and general economic conditions largely drive our national long distance call revenue. Competitive activity continues to negatively affect this revenue category directly through override and preselection and indirectly through competition for access lines. In addition, national long distance calls are impacted by customers migrating to mobile, broadband and fixed to mobile calling.

Our operating revenue from national long distance calls declined by 11.5% to \$808 million during fiscal 2007. The major contributor to the reduction in revenues year on year is a decline in revenue per minute. There have been significant pricing and package changes in the fiscal year which have impacted results. Despite a flagfall increase for all residential HomeLine® plans in August 2006 and a recent increase in flagfall in the business segment, national long distance revenue per minute has been impacted by the take up of subscription plans as discussed above. Reductions in rates between distance bands and an increase in capped call duration have also contributed to the decline in revenue per minute.

In addition, competitor activity in the fixed line market continues to be high and most carriers have a fixed or mobile cap, or a combination of both in the market. This is having a direct impact on our national long distance revenues particularly where competitors are bundling these calls with broadband offerings. Call volumes continued to decline as a result of the impact of fixed to mobile substitution and other calling options available to customers.

We continue to respond to competition offering a range of packages assisted by our market based management approach. However, with the strong growth in mobile and internet services in the Australian market, we expect national long distance call revenue to continue to be negatively impacted by ongoing migration of customers to mobile and internet products. The continued growth of subscription pricing plans also contributes to the decline in national long distance revenue per minute, despite its positive impact in slowing the decline in the number of basic access services in operations.

Fixed to mobile calls

Our fixed to mobile revenue is generated by calls originating on our fixed networks and terminating on any mobile network. We generally charge for fixed to mobile calls based on time of day, customer type and plan type, however packages are also offered on a capped price basis and under various subscription pricing plans. The growth of the Australian mobile telecommunications market has driven revenue expansion in this product category in recent times. However, the introduction of capped plans in the mobile market has now impacted the volume of fixed to mobile activity as customers continue to slowly move their usage from our PSTN products to mobiles. The fixed to mobile environment is influenced by fixed to mobile preselection, whereby the carriage service provider (CSP) selected by a customer for national long distance calls automatically becomes the customer's provider for fixed to mobile calls.

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During the fiscal year, fixed to mobile revenue declined marginally by 0.2% to \$1,487 million. This decline has slowed significantly compared with a decline rate of 4.8% in the prior fiscal year, largely attributable to the continued expansion of mobile services in the Australian market, as well as growth in subscription based pricing plans. They have also helped stimulate higher call volumes including higher number of calls, minutes of use per subscriber and average call duration. The volume growth is also consistent with the growth in the total market mobile SIOs, i.e. a higher number of mobiles on which fixed calls can terminate, and the higher number of calls.

The slight decline was driven by lower revenue per minute resulting from higher discounts associated with ongoing competitive pressure, including incorporating fixed to mobile calls in reward offerings and subscription plans. This increase in the level of discounting is representative of our increased campaign activity aimed at reducing customer churn to other providers and win customers in the market place. Another driver for the decline is the continued migration to subscription based plans, which offer capped calls to both Telstra and non-Telstra mobiles.

International direct calls

Our operating revenue from international direct relates to revenue we generate from international calls made from Australia to a destination outside Australia (outbound). This revenue is largely driven by international events, customer perceptions about the cost and value of our service, competition, migration to broadband alternatives, promotion and advertising, and general economic conditions.

Our international direct revenue declined by 8.5% to \$184 million primarily as a result of continued competitive pressure on price and lower volumes, despite improving from a decline of 14.1% in fiscal 2006. Factors which have influenced this trend include the competitive pressures from calling cards, increased use of emails, fixed to mobile substitution and the growth of Voice over IP in the market place. International direct minutes declined by only 1.1% for the fiscal year. Despite increases in flagfall rates, our international direct revenue per minute still experienced a reduction as a result of the factors discussed above, as well as the growth of subscription plans offering cheaper capped international calls.

Fixed interconnection

Fixed interconnection is made up of local and non local PSTN/ISDN access interconnection services provided to other carriers and Global Linx, a Telstra Wholesale international voice call product. This category is a highly regulated area of the Australian telecommunications market.

Our operating revenue from fixed interconnection decreased by 10.7% to \$276 million driven mainly by a reduction in volumes whilst yield remains consistent year on year. Volume declines are in line with cross company trends in PSTN traffic and have been particularly impacted by migration to mobiles and, to a small degree, ULL build.

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ISDN products

ISDN is a flexible, switched network based on digital technology. It can support several applications at one time (such as voice, data and video) while using a single access point to the network. ISDN services are offered to residential and business customers across Australia. Our ISDN products revenue is impacted by offerings and packages in the broadband market, growth in the number of DSL enabled exchanges and migration to advanced data products such as IP solutions in the business markets.

ISDN products

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Access revenue	419	417	2	0.5%
Data calls	90	118	(28)	(23.7%)
Voice calls	240	271	(31)	(11.4%)
Total calls revenue	330	389	(59)	(15.2%)
Total ISDN products revenue	749	806	(57)	(7.1%)
Average revenue per user per month \$'s	224.99	229.46	(4.47)	(1.9%)
ISDN access lines (basic access line equivalents) (in thousands) (i)	1,172	1,214	(42)	(3.5%)

Note: statistical data represents management's best estimates.

ISDN access revenue has increased marginally by 0.5% to \$419 million. ISDN 2 access has improved by 4.1% to \$183 million due to reduced discounting offset by the impact of broadband promotion and growth in DSL enabled exchanges. ISDN 10/20/30 declined by 2.2% to \$237 million as a result of yield reduction associated with the acquisition of new services and whole of business deals.

ISDN data calls revenue decreased by 23.7% to \$90 million as local and national long distance calls decreased by \$20 million and \$8 million respectively. This result is due to lower minutes of use as a result of customer migration to alternative products such as ADSL, BDSL and symmetrical HDSL, which offer higher bandwidths at reduced prices.

ISDN voice calls comprising local voice, national voice and international voice calls made on the ISDN network, declined by 11.4% to \$240 million, mainly due to a decline in local and national calls by \$20 million and \$10 million respectively. Revenue declines in ISDN local voice can be attributed to a 13.8% decrease year on year in minutes of use, and a re-classification of Priority One3 and 1300A party products from ISDN to inbound calling. Both local and national voice calls have experienced a fall in price due to pricing pressure.

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Inbound calling products

Our operating revenue from inbound calling products consists principally of the fees we charge our business customers for the provision of inbound calling numbers:

- for Freecall™ 1800, the cost of the call, charged to the party called, with no cost incurred by the caller;
- for Priority® 1300 and Priority® One3:
 - the calling party from a PSTN service incurs a cost of 27.5 cents (including GST) from anywhere in Australia. Different charges apply for calls made from ISDN, mobiles and payphones; and
 - the service owner incurs the other components of the call charges as applicable.

Our inbound calling products revenue therefore is driven by two different streams, the caller (A party) and the lessee of the inbound service (B party). The A party revenues are affected by substitution to other voice products such as mobiles and the internet. B party revenues are affected by increased customer competition impacting prices.

Inbound calling products

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Inbound calling products revenue	413	414	(1)	(0.2%)
B party minutes (in millions)	2,635	2,922	(287)	(9.8%)
A party calls (in millions).	1,008	1,012	(4)	(0.4%)

Note: statistical data represents management's best estimates.

Revenue from inbound calling products declined by 0.2% to \$413 million mainly due to a decline in revenue from freecall™ 1800, Priority One3 and 1300 B party products offset by an increase in Priority One3 and 1300 A Party products.

Freecall™ 1800 has declined by \$8 million due to lower minutes of use as customers trend towards use of 1300 services and the increasing popularity of phone word numbers being used. Priority One3 and 1300 B party revenues declined by \$4 million despite an increase in SIOs due to lower minutes of use after the loss of two volume driving customers. Trends have also declined due to competitive market pressures.

This was offset by revenue growth of \$11 million in Priority One3 and 1300 A party revenues after a price increase from 25 cents per call to 27.5 cents per call during the year, and an increase in call volumes.

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Payphones

Payphones

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Payphone revenue	92	104	(12)	(11.5%)
Telstra owned and operated payphones (thousands)	25	30	(5)	(16.7%)
Privately owned and operated payphones (thousands)	25	27	(2)	(7.4%)
Total number of payphones (in thousands)	50	57	(7)	(12.3%)

Note: statistical data represents management's best estimates.

Payphone revenue declined by 11.5% to \$92 million in the year ended 30 June 2007. This is a result of a reduction in coin revenue of \$9 million, with call and product substitution from payphones to pre-paid mobiles. Phone-card revenue also reduced by \$2 million resulting from increased competitor pre-paid calling cards with international call rates at 1 to 2 cents per minute to some locations. We have removed a number of low usage payphones resulting in a reduction in the number of Telstra owned and operated payphones.

Customer premises equipment

Customer premises equipment

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Customer premises equipment	318	274	44	16.1%

Customer premises equipment (CPE) revenue increased by 16.1% to \$318 million. This increase was mainly driven by growth in enhanced CPE products, PBX products and Telstra branded and non-branded consumer products, offset by a decline in first and extension phones.

Enhanced CPE products grew by \$20 million after Telstra Business Systems CPE-carriage bundles increased unit sales by 30% as a result of strong marketing activity. New dealer recruitment via Telstra Licensed Shop channels has also contributed to strong sales that have had a positive effect on year on year growth.

PBX products have increased mainly due to additional revenue being generated from acquired entities Converged Networks Pty Ltd (\$7 million) which was acquired in April 2006, and Touchbase Avaya Pty Ltd (\$4 million) acquired in July 2006. Service revenue increased this year by \$8 million resulting mainly from new contracts acquired in fiscal 2007.

Telstra branded and non branded products have increased by \$12 million due mainly to digital and IT equipment revenue growth consistent with sales activity on the Next G™ network, offset by a \$10 million decline in first and extension phones caused by continued substitution to sales CPE and mobiles.

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Inter-carrier access services

Our operating revenue from inter-carrier fixed access products consists of revenue from facilities access, unconditioned local loop, switch ports and interconnect network services, wholesale operator services, local number portability and other wholesale access.

Inter-carrier access services

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Inter-carrier access services	181	152	29	19.1%

Inter-carrier fixed access revenue increased by 19.1% to \$181 million during the year ended 30 June 2007. The main driver in the growth has been facilities access which has grown by 25.6% or \$21 million due to other carrier/service providers expanding their infrastructure by using Telstra Equipment and Building Access (TEBA). TEBA sites have increased year on year by 44.3% as service providers seek to extend DSL capability and prepare to build their own infrastructure.

Unconditioned local loop has increased by 26.1% or \$8 million due to competitors building their own networks. SIOs have increased by 99.2% from 120 thousand to 239 thousand during fiscal 2007 but revenue is not reflective of this as regulatory pressure has led to a downward pricing adjustment. A number of interim determinations were released by the Australian Competition and Consumer Commission (ACCC) in the first half of fiscal 2007 which set a band 2 ULL price of \$17.70 per month applicable to several customers. This price has later been reduced in a draft final determination issued by the ACCC in June which is substantially lower than the rates applicable in the prior year. Offsetting this growth is a decline of \$4 million in other wholesale access products due to a reduction in commercial and pre-selection churn charges and wholesale billing service charges.

Other fixed telephony

Other fixed telephony

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Telstra information and connection services	131	120	11	9.2%
Virtual private network	12	17	(5)	(29.4%)
International freecall	7	7	-	-
Card services	43	50	(7)	(14.0%)
Satellite products	17	14	3	21.4%
Customnet and spectrum	107	110	(3)	(2.7%)
Total other fixed telephony revenue	317	318	(1)	(0.3%)

In the year ended 30 June 2007, revenue from other fixed telephony decreased by 0.3% to \$317 million mainly due to a decline in card services, virtual private networks and customnet and spectrum offset by an increase in Telstra information and connection services.

Card services include postpaid card services, such as Homelink[®], Telecard and OneNumber, and prepaid card services, such as Prepaid Home, Phoneaway[®], and Say G'day[®]. The decline in card services revenue reflects an overall decline in the number of services due to substitution to cheaper and more convenient calling products such as mobiles.

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Virtual private network enables multi location customers to link premises in Australia and overseas to an integrated system without the use of leased lines. Virtual private network revenue has decreased due to the discounting of call rates arising from competitive pressures and call substitution like fixed to mobile, mobile to mobile and SMS.

Customnet and spectrum is a fully managed telephone system that provides a premium voice communication application. The decrease in revenue is mainly due to declining local call revenue caused by substitution to products such as fixed to mobile and lower prices offered to customers.

Telstra information and connection services include operator assisted calls, directory assistance, Sensis 1234 call connect and emergency reporting services. Sensis 1234 and 12456 call connect are premium directory services for residential and business information including most telephone numbers, addresses, business operating hours and URLs (where available). The increase in Telstra information and connection services revenue is due to increased Sensis 1234 and 12456 call connect revenues arising from longer average handling times of calls as a result of additional content on offer, including updates on the weather, sporting events and film schedules. This is offset by a decline in usage of directory assistance as customers move to the Sensis 1234 and 12456 product and a decline in international operator assisted calls. In addition, people have moved to internet search engines such as Yellow™ and WhitePages® online respectively.

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Mobiles

Our operating revenue from mobiles consists of revenue from access fees and call charges, as well as other services comprising international roaming, mobile MessageBank®, Short message service (SMS) and other mobile data. Mobile data includes mobile wireless broadband products from platforms such as EVDO and HSDPA which work off our CDMA and 3GSM 850 networks respectively. Mobiles revenue also includes revenue from the sale of mobile handsets and interconnection charges where calls from other carriers' customers terminate on our network.

Our mobile call charges include all calls made from mobiles including long distance and international calls, but exclude calls made from our fixed network which is classified as fixed to mobile within PSTN, and mobile revenues from CSL NewWorld which are classified as controlled entity revenue.

In October 2006, we launched the Next G™ network, a new 3GSM network operating in the 850 megahertz spectrum. We now provide services over four primary mobile technologies, CDMA, 2GSM, 3GSM 850 and 3GSM 2100. We have had large amounts of our current subscribers migrating from our old networks onto our 3GSM networks and 3GSM SIOs now account for 21.7% of our total SIO base. Around half of these SIOs have resulted from migration from our other networks. We will reduce our level of network costs and complexity once our CDMA network is closed scheduled for January 2008. It has also enabled us to provide our customers with faster speeds, better coverage and access to a greater range of services and content than our older network. We continue to offer 3GSM services to our customers over our existing 3GSM 2100 network through our joint venture with Hutchison Telecommunication (Australia) Limited (Hutchison).

Mobiles

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Access fees and call charges (i)	2,682	2,684	(2)	(0.1%)
International roaming	327	266	61	22.9%
Mobile messagebank	231	198	33	16.7%
Mobile data				
- Short message service (SMS) (ii)	641	494	147	29.8%
- Non SMS data (i)(iii)	458	238	220	92.4%
Total mobile data (i)	1,099	732	367	50.1%
Total mobile services revenue - retail	4,339	3,880	459	11.8%
Mobile services revenue - mobiles interconnection	593	623	(30)	(4.8%)
Total mobile services revenue - retail & interconnection	4,932	4,503	429	9.5%
Mobile services revenue - wholesale	51	36	15	41.7%
Total mobile services revenue	4,983	4,539	444	9.8%
Mobile handset sales	718	467	251	53.7%
Total mobile revenue	5,701	5,006	695	13.9%
3GSM mobile SIO (thousands) (iv)	2,003	317	1,686	531.9%
2GSM mobile SIO (thousands) (v)	5,947	6,468	(521)	(8.1%)
CDMA mobile SIO (thousands) (v)	1,262	1,744	(482)	(27.6%)
Total mobile SIO (thousands) (v)	9,212	8,529	683	8.0%
Average 3GSM revenue per user per month \$'s	74.25	n/m	n/m	n/m
Average 2GSM revenue per user per month \$'s	35.30	39.42	(4.12)	(10.5%)
Average CDMA revenue per user per month \$'s	37.50	38.34	(0.84)	(2.2%)
Average revenue per user per month \$'s (including interconnection) (vi)	46.34	44.79	1.55	3.5%

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Mobiles

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Wireless broadband - SIO (thousands) (included in CDMA SIO & 3GSM above)	533	97	436	449.5%
Average revenue per user per month excluding wireless broadband \$'s	43.66	43.91	(0.25)	(0.6%)
Prepaid mobile SIO (thousands) (v)	3,697	3,597	100	2.8%
Postpaid mobile SIO (thousands)	5,515	4,932	583	11.8%
Total mobile SIO (thousands)	9,212	8,529	683	8.0%
Average prepaid revenue per user per month \$'s (excluding interconnection)	11.74	10.85	0.89	8.2%
Average postpaid revenue per user per month \$'s (excluding interconnection)	61.04	59.11	1.93	3.3%
CDMA wholesale mobile SIO (thousands)	64	73	(9)	(12.3%)
GSM wholesale mobile SIO (thousands)	67	46	21	45.7%
Total wholesale mobile SIO (thousands)	131	119	12	10.1%
Number of SMS sent (in millions) (ii)	4,902	3,019	1,883	62.4%
Deactivation rate	20.4%	23.4%		(3.0%)
Mobile voice telephone minutes (in millions)	8,640	7,361	1,279	17.4%
Average mobile data revenue per user per month \$'s (including SMS) (vii)	10.32	7.28	3.04	41.8%

Note: statistical data represents management's best estimates.

- (i) Our comparatives for June 06 have been restated to reflect a reallocation of data revenues incorrectly classified as access and charges in the prior year.
- (ii) Includes short messaging service (SMS) and multimedia messaging services (MMS)
- (iii) Includes \$284 million of revenue (June 2006: \$91 million) relating to wireless broadband services (EVDO & HSDPA) and data packs (\$5 to \$179).
- (iv) Total third generation ("3G") SIOs include 3GSM SIOs and our EVDO wireless broadband SIOs included in CDMA. The number of 3G SIOs are 2,117 thousand (3GSM: 2,003 thousand plus EVDO: 114 thousand).
- (v) Prepaid SIOs in CDMA and 2GSM include SIOs that have completed their recharge only period or have been permanently suspended from operation but are yet to be removed from the subscriber base due to system limitations. Our SIO position taking into account these deactivations would bring our prepaid SIO base to 3,445 thousand or a 4.2% decline from June 2006. Our total SIO base would be 8,961 thousand with a 5.0% increase from June 2006. Our 2GSM SIO base would be 5,830 thousand or a 9.8% decline from June 2006 and our CDMA SIO base would be 1,126 thousand or a 35.4% decline from June 2006.
- (vi) Average retail revenue per user per month is calculated using average retail SIOs and includes mobile data, messagebank and roaming revenues. It excludes interconnection and wholesale revenue.
- (vii) Includes mobile & broadband wireless revenues (EVDO & HSDPA) and data packs (\$5 to \$179).

During fiscal 2007, our mobile services revenue (including interconnection) has increased by 9.5% to \$4,932 million driven by 8.0% growth in our total subscriber base and 3.4% growth in our blended ARPU figures. Excluding interconnection our current year mobile services revenue has grown by 11.8%. This represents a significant increase from the prior year on a growing SIO base as growth rates for fiscal 2006 were 4.7% (including interconnection) and 3.3% excluding interconnection.

During the year, demand was particularly strong for 3GSM services, which reached the 2 million subscriber mark during June, inclusive of wireless broadband (EVDO and HSDPA). Increased voice usage saw minutes of use continue to grow, however this was offset by ongoing pressure on prices. We experienced strong growth in data products including SMS, Blackberry, and wireless broadband (EVDO and HSDPA) along with increased content including mobile broadband data packs (\$5 to \$179), browser packs and Foxtel by Mobile which have contributed to our ARPU uplift. Mobile revenues have also been impacted by the growth in capped price plans and heightened campaign activity particularly around Next G™ services.

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Subscriber growth was driven by an increase in postpaid SIOs of 11.8% or 583 thousand SIOs driven primarily by 3GSM with a 1.67 million or 525% increase. This was offset by postpaid CDMA which decreased by 380 thousand or 36.6% in SIOs due to heavy campaigning for migration to the Next G™ network. The CDMA network is scheduled to close in January 2008. 2GSM also declined by 701 thousand or 19.6% due to migration of customers after increased emphasis on 3GSM with the launch of Next G™ in October and the availability of new 3GSM handsets.

Prepaid services have grown in 3GSM and 2GSM with SIOs increasing by 200 thousand offset by a decrease in CDMA by 100 thousand. Prepaid SIOs have improved based on a greater range of new offers available to the market including the launch of our Next G™ prepaid offering at the end of May 2007. In addition to these movements and as part of our CDMA migration strategy, we have a further 136 thousand prepaid CDMA SIOs which are effectively permanently suspended from operation but have not yet been exited from our base due to system limitations. There are also a further 117 thousand 2GSM SIOs unrelated to the migration work but have completed their recharge only period and have not exited due to the same system limitation. Taking into account these additional movements, our prepaid SIO base would have declined by 153 thousand SIOs or 4.2%.

The growth of mobile data content over the Next G™ network has increased usage of wireless broadband HSDPA cards and data packs (\$5 to \$179) with SIOs growing by 419 thousand for the year ended 30 June 2007. EVDO SIOs increased by 17 thousand but is declining on a monthly basis due to the closure of the CDMA network and migration to Next G™.

Access fee and call charge revenue has marginally declined by 0.1% to \$2,682 million year on year reflecting a decrease in CDMA and 2GSM which has been offset by the growth in the Next G™ network. Results have been impacted during the year by the growth in capped price plans which have directly impacted revenue per minute. We have moved from 7.4% of our mobile postpaid customers on capped plans in June 2006 to 12.1% in June 2007. Call minutes generally increased for each technology, but these benefits did not outweigh the reduced price due to capped plans. CDMA prepaid and postpaid revenue per minute was impacted by recent campaigns to migrate customers off the CDMA network and on to the Next G™ network.

Revenue from international roaming grew by 22.9% to \$327 million in the year ended 30 June 2007. The rise was due to an increase in both outbound and inbound. Outbound roaming minutes and revenue per call have increased after we established a preferred supplier relationship with key international partners. The increase in inbound roaming revenue is in line with world wide mobile growth trends and the increase of travellers to Australia using their own mobile phones.

Revenue from MessageBank® increased by 16.7% to \$231 million primarily due to growth in minutes resulting from higher mobile usage particularly on the Next G™ Network.

SMS and Multimedia Messaging Services (MMS) revenues increased by 29.8% to \$641 million after a 62.4% increase in the number of messages sent. This has been stimulated by a 1 cent text offer and other rewards and bonus options offered during fiscal 2007. The majority of non SMS data growth was experienced through the BigPond and mobile wireless broadband products and data packs (\$5 to \$179) on HSDPA and EVDO with a significant increase in SIOs as highlighted above. In addition, arriving with the launch of Next G™ was the education of the market of new data services. The higher speed network improves the customer experience which has led to a previously non-active data population now using data. This is reflected in the average overall mobile data revenue per user per month increasing by \$3.04 or 41.8%. Mobile data is now 22.3% of mobile ARPU due to the increased data content offerings including FOXTEL by mobile, BigPond music downloads, videos and games. Wireless email has also contributed to the increase in non SMS data revenues primarily driven by an increase in Blackberry SIOs and usage.

Average revenue per user (ARPU) (inclusive of interconnect) increased by \$1.55 to \$46.34 for the year ended 30 June 2007 on a blended basis. This has been driven by higher postpaid ARPUs experienced on our 3GSM base compared with

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the decreases in 2GSM and CDMA technologies with the \$20 per month ARPU premium maintained. Data usage under the 3GSM network has been a key driver of this increase.

Wholesale mobile service revenue increased by 41.7% to \$51 million due to growth in the Wholesale GSM resale product and GSM postpaid due to new contracts acquired.

Mobiles interconnection revenue has declined 4.8% to \$593 million. The main product driving this is mobiles terminating revenue which has been impacted by a retrospective regulatory pricing adjustment totalling \$97 million made to the mobiles terminating access (MTA) rate. The rate has dropped from 15 cents per call minute in fiscal 2006 to 12 cents per call minute in fiscal 2007. The decline was despite a 12.0% increase in termination volumes resulting from growth across the entire market. GSM wholesale domestic roaming grew by \$47 million as Hutchison 3G Australia customers use Telstra's GSM network services when outside their service area. A \$9 million drop in CDMA roaming is due to migration of Hutchison's CDMA customers to 3GSM. SMS interconnect has grown by \$29 million due to an increase in traffic resulting from growth in mobile SIOs as well as a continued increase in the popularity of text messaging as a cheaper alternative to mobile voice calling.

Revenue from handset sales increased by 53.7% to \$718 million primarily due to growth in the number of 3GSM mobile handsets sold. This growth is attributed to the launch and popularity of the Next G™ network along with higher priced 3GSM handsets due to their advanced functional capabilities. The move away from CDMA and 2GSM to higher priced 3GSM handsets has also had the effect of increasing the average revenue of handsets sold.

The deactivation rate has decreased during the year by 3.0% due to a decrease in prepaid mobile deactivations by 6.9% as a result of the introduction of a new billing system, which has allowed us to provide better offerings to customers. This rate has also been impacted by the prepaid SIOs which were unable to be deactivated for the period due to system limitations as mentioned above. This was offset by postpaid deactivations that increased by 0.3% due to a clean up of our customer base.

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Internet

Revenue from internet services is driven primarily by:

- the increased use of the internet by businesses and consumers;
- the movement of our customers from basic access and associated calling products to other access services such as ADSL;
- demand for greater bandwidth services such as broadband; and
- the increased need to access broadband services on a mobile basis.

While internet markets have been experiencing growth, price competition remains. We expect that these trends will continue.

Internet

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Narrowband	144	220	(76)	(34.5%)
Retail broadband (i)	1,213	730	483	66.2%
Wholesale broadband	568	469	99	21.1%
Other	20	18	2	11.1%
Total internet revenue	1,945	1,437	508	35.4%
<hr/>				
Broadband subscribers - retail (in thousands) (i)(ii)(iii)	2,406	1,506	900	59.8%
Average broadband retail revenue per subscriber per month \$'s (i)	51.67	51.76	(0.09)	(0.2%)
Average broadband retail revenue excl. wireless broadband per subscriber per month \$'s	48.49	48.72	(0.23)	(0.5%)
<hr/>				
Broadband subscribers - wholesale (in thousands)	1,762	1,427	335	23.5%
Average broadband wholesale revenue per subscriber per month \$'s	29.67	33.75	(4.08)	(12.1%)
<hr/>				
Narrowband subscribers - retail (in thousands)	654	1,027	(373)	(36.3%)
Average revenue per narrowband subscriber per month \$'s	14.26	16.40	(2.14)	(13.0%)

Note: statistical data represents management's best estimates.

- (i) Prior year figures have been restated to include the gross up of mobile broadband revenues relating to EVDO/HSDPA and data pack usage.
(ii) Telstra internet direct (Retail ADSL), Hyperconnect and Symmetrical HDSL are not included in retail broadband revenue and subscriber numbers.
(iii) Our broadband subscribers include 533 thousand subscribers relating to our wireless broadband products and data packs (\$5 to \$179) for June 2007 and 97 thousand for June 2006. Our prior year figure has been adjusted to reflect this change.

Our narrowband products allow customers to connect to the internet from any telephone line in Australia. Our broadband products allow customers to experience an "always on" connection to the internet, although this is not available to all lines due to technology limitations. During the year there was continued demand for capacity combined with competitive pricing which resulted in customers migrating their narrowband services to broadband. This trend placed additional price pressure on our narrowband products and resulted in a significant decline in our narrowband revenues.

There are a range of internet products and packages offered under our BigPond brand. Telstra BigPond home and business packages offer dial-up modem services to residential and business customers across Australia. Telstra BigPond broadband provides broadband internet services to consumer and business customers via HFC (Hybrid Fibre

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Coaxial) cable, ADSL (including ADSL 2+) and satellite. We also provide wireless broadband services on the Next G™ and CDMA networks.

During fiscal 2007, our internet revenue grew by 35.4% to \$1,945 million. The subscriber base for our broadband products grew significantly, partially due to migration from narrowband products but also due to growth in market share. As at 30 June 2007, we had approximately 4.8 million internet customers with over 2.4 million of these being broadband retail customers. There has been a significant rise in demand for broadband resulting from competitive pricing strategies and ongoing demand for applications and content.

Narrowband revenue decreased by 34.5% to \$144 million for fiscal 2007. Home subscribers have declined by 37.4% to 549 thousand and business subscribers by 30.2% to 105 thousand. The decline in narrowband revenue highlights the growing impact of dial-up to broadband migration. We expect this trend to continue with further decline in usage likely to occur as broadband continues to appeal to customers.

Retail broadband revenue increased by 66.2% to \$1,213 million for fiscal 2007, mainly due to strong increases in SIOs, while ARPU has been maintained. ADSL, wireless and cable have been key drivers of the SIO growth, with ADSL subscribers increasing by 37.2% to 1.5 million and cable subscribers increasing by 18.6% to 336 thousand. Wireless growth has been strong after HSDPA on the Next G™ network was launched in October 2006. These products contributed 436 thousand to the increase in our subscribers over the last 12 months.

BigPond also marked its tenth anniversary in November with the launch of a new national high speed broadband network. The network delivers significantly increased speeds from exchanges offering ADSL 2+ services. The introduction of a number of key price and value campaigns has also stimulated broadband take up including high-speed cable plans, value offers which included a combination of discounted access and installation offers, various sales channel and marketing initiatives and competitive differentiation such as appealing and popular content offers.

As our customers migrate from narrowband to broadband our overall blended ARPU has increased from June 2006 to June 2007. This result is mainly due to broadband subscribers having a substantially higher ARPU than narrowband and the proportional mix of customers has changed as existing broadband customers are migrating to higher speed plans.

Wholesale broadband revenue increased by 21.1% to \$568 million for fiscal 2007, driven by a continuing strong market demand for high bandwidth services stimulated by retail competition. Wholesale DSL internet grade has grown by 21.2% to \$508 million driven by SIO growth of 16.6% to 1.4 million, combined with delayed ULL build activity and a stable average revenue per user. Spectrum sharing services has also contributed to revenue growth as more wholesale customers have moved towards this product as opposed to ULL build. Strong spectrum sharing service SIO growth from 152 thousand to 304 thousand has contributed to the revenue increase offset partially by the reduced prices after a number of ACCC determinations relating to this product.

Other revenue, which is made up of media content and BigPond webhosting services, increased by 11.1% over the year. BigPond webhosting services primarily relates to the hosting of fully functional personal or business websites for customers. Media content includes revenue from movies, games and music and whilst this business is still small in dollar terms it is starting to show positive growth trends. Movies revenue in particular increased by 38.7% for fiscal 2007 due to growth in SIOs assisted by increased marketing support and major changes to websites and processes. Games revenue grew significantly by 212.9% due to the launch of Gameshop in June 2006 where customers can purchase and download games online.

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IP & data access

IP & data access

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Internet direct	157	143	14	9.8%
Specialised data:				
- Frame relay	258	302	(44)	(14.6%)
- ATM	74	90	(16)	(17.8%)
- Digital data services	163	198	(35)	(17.7%)
- Leased lines	234	229	5	2.2%
- International private lines	29	30	(1)	(3.3%)
- Other specialised data	38	35	3	8.6%
Total specialised data	796	884	(88)	(10.0%)
IP access	443	342	101	29.5%
Wholesale internet & data	231	215	16	7.4%
Total IP & data access revenue	1,627	1,584	43	2.7%
Domestic frame access ports (in thousands)	28	30	(2)	(6.7%)
Internet direct services in operation (in millions)	37	32	5	15.6%
Hyperconnect retail services in operation (in thousands)	18	15	3	20.0%
Symmetrical HDSL services in operation (in thousands)	17	12	5	41.7%

Note: statistical data represents management's best estimates.

Our revenue from IP and data access products consists of revenue from internet direct, specialised data, IP access and wholesale internet and data. This product suite is used primarily by small to large enterprise customers. IP and data access has increased by 2.7% to \$1,627 million driven mainly by IP access, internet direct and wholesale internet and data. IP access has grown due to newer technology attracting a migration of small business and enterprise customers from mature products in specialised data. Also contributing is the greater bandwidth requirements of health customers and the mining industry in regional locations. The launch of Next IP™ (our fully integrated national IP network) in April 2007 is expected to further increase our revenue as small to large enterprise customers recognise the key advantages of the new network in improving business communications through its bandwidth, data speeds, scalability and security.

Internet direct has increased by 9.8% to \$157 million due mainly to Telstra Virtual ISP where a commercial deal signed has increased data usage. The Telstra Virtual ISP product brings together our MegaPoP national dial-IP platform with our wholesale internet solution to provide dedicated dial-up ports that customers can on-sell to end users. Higher internet direct SIOs have also contributed to the year on year revenue increase.

Specialised data has declined by 10.0% to \$796 million in revenue due to the maturing nature of the products in this category with most customers moving to IP access products which provide better business solutions. Digital data services (DDS) has declined by 17.7% to \$163 million due to it being a maturing product with the majority of customers now opting for symmetrical HDSL and other solutions. Digital data access has also declined as wholesale customers are leaving this product and building their own networks.

Frame relay revenue has declined by 14.6% to \$258 million due to frame relay products maturing and customers migrating to newer technologies particularly symmetrical HDSL. ATM has declined by 17.8% to \$74 million due to customers moving to other wideband, DSL and IP offerings.

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IP access revenue consists of hyperconnect, symmetrical HDSL, IP WAN, IPMAN/ethernet, IP remote and global IP. Our revenue increased by 29.5% to \$443 million. IPMAN/ethernet has increased revenue in the IP access category by \$46 million whilst IP WAN has increased by \$29 million. IPMAN/ethernet products have experienced an increase in SIOs by 42.4% underpinned by the government sector's demand for wideband internet protocol. IP WAN growth can be attributed to increased SIOs due to the migration from ATM and frame relay as the demand for broader bandwidth to support IP based services such as Voice over IP and video continues to grow. Symmetrical HDSL has increased by 55.5% or \$29 million due to greater availability of this product and higher average bandwidth purchased.

Wholesale internet and data has increased by 7.4% to \$231 million mainly due to wholesale leased transmission increasing by \$20 million. This is driven by an increase in end user bandwidth demand driven by corporate networks, internet usage, ISPs growing DSL network coverage and mobile providers requiring additional backhaul to support bandwidth requirements for their 3GSM networks. The SIOs for transmission have increased by 4 thousand or 26.0%. Wholesale virtual private networks also grew by \$4 million as wholesale customers found an attractive alternative to deliver better internet solutions, offset by our wholesale internet products which have declined by \$12 million due to competitive pressures in the market place.

Business services and applications

Our operating revenue from business services and applications is derived from managing all or part of a customer's communications and IT solutions and services covering:

- managed network services which is network based voice and data products, including CPE management, radio networks and new wireless based technologies;
- IT services which is managed customer infrastructure (e.g. desktop and end user devices), hosting and application development. In addition, IT services also includes professional consulting and deployment services;
- business applications including IP telephony, end to end conferencing solutions and products that support transaction services; and
- our eBusiness and global data centre.

Business services and applications

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Managed network services	265	316	(51)	(16.1%)
IT services	585	624	(39)	(6.3%)
Business applications	135	112	23	20.5%
Other	68	3	65	n/m
Total business services and applications revenue	1,053	1,055	(2)	(0.2%)

For fiscal 2007, business services and applications revenue declined by 0.2% to \$1,053 million mainly due to lower managed network services and IT services revenue, offset by business applications and other revenues.

The decrease in managed network services revenue of 16.1% to \$265 million was driven by reductions in managed voice and managed radio. Managed voice revenue was lower mainly due to reduced contract scope in relation to a major customer. Both managed voice and managed radio revenue were affected by reduced activity resulting after the 2006 Commonwealth Games. Partially offsetting these declines was growth in managed WAN revenue, which was driven by increased router and CPE management sales.

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IT services revenue declined by 6.3% to \$585 million for fiscal 2007 mainly due to the sale of Australian Administration Services (AAS) in August 2006, resulting in lower revenue of \$92 million. Fiscal 2006 includes a full 12 months of revenue compared to only 2 months in the current year. This decline was partially offset by revenue earned from a number of recent government contracts signed and higher commercial project volumes.

Business applications revenue has grown by 20.5% to \$135 million for fiscal 2007 due to contact solutions and IP telephony. Within contact solutions, new revenues relating to web contact centres and Telstra locator contributed to growth. Web contact centres are fully integrated contact centres combining in and outbound voice, email, web chat, and fax delivered via the internet and Telstra locator is a network hosted speech recognition solution which automates the process of enabling callers to locate and connect to a store, service centre or business outlet that's closest or most convenient to them. IP telephony revenue has grown due to the newly launched IP telephony call manager solution and customers transitioning from traditional systems to converged voice and data platforms.

Other revenues have increased mainly due to the reclassification of managed industrial network services revenues from external construction this fiscal year. After allowing for this, managed industrial network services revenue has grown year on year by \$11 million as a result of increased sales, offset by the recognition of estimated contract losses. Previously losses were recognised over the life of the project whereas this now occurs up front.

Advertising and directories

Our advertising and directories revenue is predominantly derived from our wholly owned company, Sensis, and its controlled entities. The Sensis group provides innovative advertising and search solutions through print, online, voice, wireless and satellite navigation networks.

The majority of advertising and directories revenue is derived from our print and online directories - Yellow™ and White Pages® - which have grown steadily due to the introduction of new print and directory advertising initiatives.

Advertising and directories

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Advertising and directories revenue	1,835	1,711	124	7.2%

Our advertising and directories revenue has increased by 7.2% to \$1,835 million partially due to the acquisition of SouFun. In August 2006, we acquired 55% (on an undiluted basis) of the issued capital of SouFun, a leading real estate and home furnishing and home improvement website in China, for a total cash consideration of US\$254 million. SouFun contributed \$49 million in revenue for fiscal 2007.

We have also continued to experience growth in our directories business due to the introduction of new initiatives within print directories such as coloured listings. We continue to see solid growth within our online directories due to increased customer numbers and new initiatives such as Home@Yellow. The location & navigation portfolio was also strong with portable navigation unit sales growing by over 200%.

For a detailed description of the performance in this area, please refer to the Sensis financial summary on page 46.

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Offshore controlled entities

The offshore controlled entities category relates to our offshore subsidiaries, which provide a variety of products and services within their various regions of operation. Included in this category are the following significant offshore controlled entities:

- CSL New World Mobility Group (CSLNW), which generates its revenues from the Hong Kong mobiles market. CSLNW was formerly known as Hong Kong CSL Limited, until March 2006 when this entity merged with Hong Kong based mobile company New World PCS. Since the transaction, we own 76.4% of the merged entity;
- TelstraClear, which generates its revenues from providing full integrated services to the New Zealand market; and
- other offshore controlled entities predominantly in the Telstra Enterprise and Government segment, which mainly generate revenues from the provision of global communication solutions to multinational corporations through our interests in the United Kingdom, Asia and North America.

Offshore controlled entities - revenue

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
CSL New World	1,000	830	170	20.5%
TelstraClear	573	620	(47)	(7.6%)
Other offshore controlled entities	348	295	53	18.0%
Total offshore controlled entities revenue	1,921	1,745	176	10.1%

Consolidated revenue from offshore controlled entities increased in fiscal 2007 by 10.1% to \$1,921 million. This growth was primarily due to the following factors:

- CSLNW revenue growth of 20.5% to \$1,000 million driven by the merger between Hong Kong CSL and New World PCS in March 2006, which contributed additional revenue of \$180 million for fiscal 2007. Increased activity also contributed to revenue growth, with increased mobile services revenue being driven by rising data, international voice and prepaid revenue. This was however offset by declining local voice revenue due to the impact of sustained pricing pressure. Mobile handset revenue also increased. Overall revenue growth was impacted by a \$56 million unfavourable foreign exchange rate.
- TelstraClear experienced a net decline in revenue of 7.6% to \$573 million. There were significant declines in calling revenues largely due to lower usage and competitor led price erosion and internet product competition particularly in the small business segment. Mobile revenue declined due to a smaller customer base in the business segment. Revenue was also negatively impacted by the NZ\$ exchange rate, with a \$17 million foreign exchange impact. Access revenue growth partially offset the other categories of decline, mainly due to a focus on areas where TelstraClear has its own network and can provide a differentiated offering.

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- Revenue increased by 18.0% to \$348 million in other offshore controlled entities mainly due to growth in Asia, the US and Europe. The Asian business grew by \$29 million mainly due to continued strong sales growth in the established Telstra Singapore and Telstra Hong Kong businesses. The KAZ business also exhibited strong growth in the same region. The US business grew by \$16 million mainly as a result of a major contract to provide telecommunications solutions over an integrated global IP-based network. Predominantly the growth resulted from the Service Provider Channel in the USA, particularly Global Crossing and to a lesser degree Broadwing. Revenue growth in Europe of \$8 million was mainly due to increases in data and hosting revenue growth through PSINet. This growth was partly offset by the continued erosion of the Powergen and Cable Telecom customer bases, with Telstra ceasing to carry Powergen traffic after they exited the Telecom business at the end of March 2007.

For further detail regarding the performance of our major offshore subsidiaries CSLNW and TelstraClear, refer to the business summaries on pages 48 and 49.

Pay TV bundling

Pay TV bundling

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Pay TV bundling revenue	344	320	24	7.5%
FOXTEL Pay TV bundling subscribers (thousands)	357	292	65	22.3%
Austar Pay TV bundling subscribers (thousands)	33	51	(18)	(35.3%)
Total Pay TV bundling subscribers (thousands)	390	343	47	13.7%

Note: statistical data represents management's best estimates.

Pay TV bundling revenue is generated through reselling FOXTEL and Austar services to consumers with an eligible fixed line service with us. Total pay TV bundling revenue grew by 7.5% to \$344 million for fiscal 2007, with FOXTEL revenue growing \$34 million, offset by a decline in AUSTAR revenue of \$10 million.

FOXTEL bundled services revenue grew by 12.3% to \$310 million after an increase in subscribers by 22.3%, largely due to the FOXTEL conversion campaign which targeted both new customers and existing analogue customers and encouraged them to sign up to the digital network. FOXTEL IQ, an interactive digital feature available to all FOXTEL digital subscribers also contributed to revenue growth with substantial increases in subscribers during the period.

As part of the completion of the migration strategy to convert existing analogue subscribers to the digital network, the analogue cable service was closed in January 2007 followed by the analogue satellite service in March 2007. As a result of this migration all FOXTEL subscribers are now on the digital service, compared with 78.6% in the previous fiscal year.

AUSTAR bundled services revenue declined by 22.7% to \$34 million mainly due to a declining subscriber base, as a result of limited marketing activity undertaken throughout the period.

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Other minor items

Other minor items

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
HFC cable usage	80	84	(4)	(4.8%)
Commercial and recoverable works	32	57	(25)	(43.9%)
External construction	34	108	(74)	(68.5%)
Other	125	111	14	12.6%
Total other minor items revenue	271	360	(89)	(24.7%)

Revenue from other minor items decreased by 24.7% to \$271 million for the year ended 30 June 2007. The revenue decline was mainly due to lower external construction and commercial and recoverable works.

External construction revenue decreased by 68.5% to \$34 million due to a re-classification of revenues to managed industrial networks of \$55 million and a reduction in external construction of \$31 million as we progressively wind down our carrier customer projects and gradually move out of this area. These declines are partially offset by growth in revenue of \$24 million generated from the construction work building 3G sites for our 3GIS partnership with Hutchison.

Commercial and recoverable works revenue declined by 43.9% to \$32 million mainly due to the conclusion of certain contracts relating to the FOXTEL digital upgrade and the discontinuing of network build projects for our competitors.

HFC cable usage is made up of revenue received from FOXTEL for cable installations and service calls. Revenue decreased by 4.8% to \$80 million mainly due to a decline in cable field works as FOXTEL are undertaking their own installation activity. This decrease was partially offset by an increase in the revenue share contribution due to higher subscriber numbers and the continuing migration of subscribers from analogue to digital services which tend to have a higher revenue per user.

Other revenue increased by 12.6% to \$125 million mainly due to increases in overdue account payments revenue as a result of a \$4 increase in the fee for overdue bills \$200 and higher.

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Other revenue

Other revenue

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Rental Income	36	22	14	63.6%

Rental income growth was mainly due to changes to some of our data centre leases, along with a sublease agreement relating to the office space occupied by our formally controlled entity Australian Administration Services.

Other income

Other income

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Proceeds from sale of property, plant and equipment	34	46	(12)	(26.1%)
Proceeds from sale computer software	2	-	2	n/m
Proceeds from sale of business	4	-	4	n/m
Proceeds from sale of investments	251	93	158	169.9%
Asset and investment sales	291	139	152	109.4%
Cost of property, plant & equipment	28	23	5	21.7%
Cost of investment	194	31	163	525.8%
Cost of asset and investment sales	222	54	168	311.1%
Net gain on assets and investment sales	69	85	(16)	(18.8%)
USO levy receipts	54	58	(4)	(6.9%)
Government subsidies	87	135	(48)	(35.6%)
Miscellaneous income	41	50	(9)	(18.0%)
Other income	182	243	(61)	(25.1%)
Total other income	251	328	(77)	(23.5%)

Total other income decreased by 23.5% to \$251 million for the year ended 30 June 2007.

Income in the area of asset and investment sales was driven by proceeds from sale of investments of \$251 million. This mainly related to the sale of Australian Administration Services (AAS) in August 2006, the superannuation administration business of our KAZ Group for \$231 million, recognising a net gain on sale of approximately \$43 million. We also sold Platefood Limited, which provided search marketing software and search results to directories and media companies, in November 2006. Proceeds from this sale were \$10 million, with a net gain on sale of \$4 million. Also contributing to the increase in revenue was the final instalment of \$9 million from the joint venture sale of Xantic which occurred in February 2006.

The decline in other income for the year ending 30 June 2007 was mainly due to the completion of the HiBIS scheme that was finalised in fiscal 2006. Also contributing to the decline was the timing of the final Esten scheme payment, which is not due until the second half of the 2007 calendar year. The Esten scheme provides funding for mobile coverage in designated rural areas.

Full year results and operations review - June 2007

Expenses

Expenses

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Labour	4,017	4,364	(347)	(8.0%)
Goods and services purchased	5,151	4,701	450	9.6%
Other expenses.	4,924	4,427	497	11.2%
	14,092	13,492	600	4.4%
Share of net loss/(gain) from jointly controlled and associated entities.	7	(5)	12	(240.0%)
	14,099	13,487	612	4.5%
Depreciation and amortisation.	4,082	4,078	4	0.1%
Total expenses.	18,181	17,565	616	3.5%

During fiscal year 2007, our total expenses (including share of net loss from jointly controlled and associated entities) increased by 3.5% to \$18,181 million. Our expenses have been impacted by the following factors:

- higher goods and services purchased mainly relating to cost of mobile sales as a result of increased market campaign activity, especially following the launch of the Next G™ network;
- costs associated with transformational initiatives amounting to \$706 million in fiscal 2007, representing a year on year reduction of \$413 million, largely due to restructuring and redundancy provisions of \$427 million included in prior period results not being incurred in the current fiscal year. A total of \$232 million of these provisions are remaining at the end of fiscal 2007;
- growth in our service contracts and other agreements largely driven by expenditure relating to the transformation, as well as volume based increases;
- impairment charges relating to the Trading Post mastheads of \$110 million arising as a result of the highly competitive market in which Trading Post operates and risks associated with new initiatives;
- additional operating expenses of \$228 million included in fiscal 2007 resulting from our acquisition activity including the SouFun acquisition, and the inclusion of a full twelve months of expenses relating to entities we acquired in fiscal 2006. This included expenses relating to Adstream and New World PCS. Offsetting this increase is a reduction to our expenses of \$80 million, attributable to our divestment of Australian Administrative Services (AAS) in August 2006;
- lower labour expenses as a result of reduced staff numbers and the utilisation of the redundancy provision raised at the end of fiscal 2006, which has the effect of lowering our redundancy expense compared with fiscal 2006; and
- lower network payment costs as a result of reduced mobile terminating access rates and lower net costs flowing through from REACH, resulting in lower offshore outpayments.

Full year results and operations review - June 2007

Labour

Labour expense includes:

- salary, wages and related on-costs, including superannuation costs, share based payments, workers' compensation, leave entitlements and payroll tax;
- costs of engaging contractor labour and agency costs; and
- redundancy expenses.

In the table below, our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities. Domestic full time employees do not include casual and part time employees or employees in our offshore subsidiary entities. Our full time employees and equivalents include the total of our domestic and offshore full time employees, and casual and part time employees measured on an equivalent basis. Our total workforce includes domestic and offshore full time, casual and part time employees as well as contractors and staff employed through agency arrangements measured on an equivalent basis.

Labour

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Labour	4,017	4,364	(347)	(8.0%)
Domestic full time employees (whole numbers) (i)	35,706	37,599	(1,893)	(5.0%)
Full-time employees and employed equivalents (whole numbers) (ii)	43,411	44,452	(1,041)	(2.3%)
Total workforce , including contractors and agency staff (whole numbers) (iii)	47,840	49,443	(1,603)	(3.2%)
Current year reduction in total workforce excluding acquisition/divestment activity (iv) .	(1,887)			
Reduction in total workforce in fiscal 2006 excluding acquisition/divestment activity (iv)	(3,859)			
Total 2 year reduction in workforce	(5,746)			

Note: statistical data represents management's best estimates.

(i) Excludes offshore, casual and part time employees.

(ii) Includes all domestic and offshore employees, including those of our subsidiary entities.

(iii) Includes all domestic and offshore employees, including subsidiary entities as well as contractors and agency staff.

(iv) The reduction in total workforce since June 2006 excludes the impact of our divestment in Australian Administration Services Pty Ltd and our acquisition of SouFun Holdings Ltd, both of which occurred in August 2006. Fiscal 2006 excludes the impact of CSL's merger with NewWorld PCS Mobility.

During the full year ended 30 June 2007, our total workforce decreased by 3.2% or 1,603 full time equivalent staff, contractors and agency staff. This decrease is predominantly due to specific efforts across the business to rationalise the number of people working for the company as transformation initiatives take effect. During the year, we also acquired SouFun Holdings Ltd which contributed 1,194 full time equivalent staff and we sold Australian Administration Services Pty Ltd, which reduced staff numbers by 910. As highlighted in the above table, excluding the impact of these investment changes, total workforce numbers have declined 1,887 from 30 June 2006.

Full year results and operations review - June 2007

Our labour expense decreased by 8.0% to \$4,017 million mainly due to:

- increased levels of redundancy resulting in lower staff levels and therefore a reduction in salary costs;
- a reduction in redundancy costs;
- lower overtime payments; and
- a reduction of worker's compensation costs based on a decrease due to a lower number of claims and claim payments and an increase in the bond rate.

We incurred redundancy expenses of \$149 million for the year ended 30 June 2007 compared with \$534 million for the comparable period last year. As part of the business restructure, we raised a provision for restructuring and redundancy at the end of fiscal 2006 which included a redundancy component amounting to \$186 million of which \$148 million has been utilised in line with the level of transformational redundancy activity that has taken place in the current year.

The above decreases in labour expense were partially offset by an increase due to pay rises resulting from Enterprise Agreement increases for award staff and contract staff rate increases, higher contractor and agency payments and the impact of a lower proportion of labour costs capitalised.

We are required to make future employer payments to the Telstra Superannuation Scheme (Telstra Super) as may be required by the funding deed with the trustee of Telstra Super in relation to the defined benefit plan or as legally or constructively obligated for the accumulation scheme. The latest actuarial investigation of Telstra Super reported that a surplus in this fund continues to exist. In accordance with the recommendations within the actuarial investigation, we were not expected to, and did not make employer contributions to Telstra Super during fiscal 2007. The vested benefits index (the ratio of fund assets to members' vested benefits) is 117% and our contributions will recommence when the index falls below 103%. The continuance of the holiday is however dependent on the performance of the fund and this is being monitored.

In fiscal 2007, we recognised \$239 million of pension costs in our labour expenses compared with \$185 million in fiscal 2006. This expense is due to the requirement for us to recognise the actuarially defined movement in our defined benefit pension plans in our operating results. The current year movement has been driven by an adjustment for additional curtailment costs of \$55 million.

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Goods and services purchased

Goods and services purchased includes core costs of our business that vary according to business activity. The largest component of this expense category is network payments, which are payments made to other carriers to terminate international and domestic outgoing calls and international transit traffic. Other significant items include the costs of mobile handsets and internet modems, costs of mobile sales (including subsidy costs, usage commissions and dealer incentives), managed services costs (including service contracts, sub-contractors and leases), service fees (predominantly in relation to our pay television services) and paper purchases and printing costs.

Goods and services purchased

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Cost of goods sold - handset subsidies	798	504	294	58.3%
Cost of goods sold - other	1,238	917	321	35.0%
Usage commissions	299	281	18	6.4%
Network payments	1,799	2,002	(203)	(10.1%)
Service fees	349	319	30	9.4%
Managed services	224	213	11	5.2%
Dealer performance commissions	128	113	15	13.3%
Paper purchases and printing	135	147	(12)	(8.2%)
Other	181	205	(24)	(11.7%)
Total goods and services purchased	5,151	4,701	450	9.6%

Our goods and services purchased increased in fiscal 2007 mainly due to higher mobile handset subsidies and cost of goods sold, offset by lower network payments. This expense category increased by 9.6% to \$5,151 million due to the following factors:

- an increase of \$68 million due to the inclusion of a full year of expenses relating to New World PCS, which merged with CSL in the second half of the fiscal 2006. The increase is mainly seen in cost of goods sold – handset subsidies and network payments. Offsetting this increase is our divestment of Australian Administrative Services in August 2006, contributing to a decline of \$16 million;
- a rise in cost of goods sold - mobile handset subsidies of \$294 million, attributable to an increase in the take up of handsets on subsidised plans as well as higher average subsidies offered. This is mainly due to the launch of the Next G™ network in October 2006 for postpaid and May 2007 for prepaid and a significant campaign at the end of fiscal 2006 which was extended into the first quarter of this fiscal year focusing on our 3GSM 2100 service. As a result, we have seen a larger range of handsets being subsidised. Our average subscriber acquisition and recontracting cost is \$187 for fiscal 2007, up from \$137 in fiscal 2006, mainly due to significant subsidy rate increases partially relating to 3GSM 2100 and a change in the mix of handsets sold with a higher postpaid to prepaid percentage as we invest in our subscriber base to drive growth. In addition, the CSL New World Mobility Group has implemented a more aggressive handset subsidy policy in order to increase handset sales;
- Increase of \$321 million in other cost of goods sold amounting to \$188 million due to higher volumes of handset sales and higher average cost per handset mainly as a result of the Next G™ network launch and the associated marketing campaigns. A \$29 million growth in BigPond related costs such as internet modems, EVDO cards and accessories due to the increasing broadband demand and sales growth in other areas such as \$14 million in mobile phone accessories have also driven the overall increase. Brightstar payments, which only commenced in the second half of fiscal 2006, contributed to the increase by \$40 million. These payments were made in accordance with our procurement agreement with them to centrally source wireless devices from global suppliers with a view to

Full year results and operations review - June 2007

achieving cost savings. Significant costs have been avoided as a result of the Brightstar arrangement, inclusive of the above payments;

- service fees increased by 9.4% to \$349 million in fiscal 2007 led by an \$18 million rise in bundling of pay television services due to growth in bundled FOXTEL subscribers and price increases and \$7 million of payments to vendors for content supplied on 3GSM mobile handsets;
- usage commissions increased by 6.4% to \$299 million, largely driven by higher commissionable mobile revenue in fiscal 2007 and increased uptake of non-mobile related products such as BigPond products;
- growth in dealer performance commissions, mainly attributable to a higher number of new mobile activations and re-contracts through external dealer channels as a result of increased market campaign activity and the launch of the Next G™ network. These commission payments are contract payments based on specific performance targets; and
- our managed services costs grew by 5.2% to \$224 million in fiscal 2007, mainly attributed to increased project management professional service costs by third party suppliers for the support of the growth in major customer contracts.

The increases were partially offset by a decrease in other goods and services purchased expenses such as network payments and paper purchases and printing costs.

Our network payments declined by 10.1% million to \$1,799 million largely due to:

- a year on year reduction of 5.3 cents per minute in the average mobile terminating rate down from an average of 18.8 cents per minute in fiscal 2006 which was partially offset by a 12.2% increase in mobile voice terminating minutes and 30.3% increase in SMS calls terminating on other carrier's networks. The main driver for the reduction in the mobile terminating access rate was due to an ACCC final determination which reduced the billed rate of around 18 cents per minute to 15 cents per minute. Included as part of this determination was a backdated component for a 6 month period relating to the prior fiscal year for the majority of customers. The impact of the lower rates year on year amounted to \$262 million including the impact of a \$61 million reduction relating to periods prior to 1 July 2006, offset by the volume impact of \$90 million; and
- lower payments made to REACH amounting to \$68 million for international capacity and termination costs due to lower net costs flowing through from REACH, which in turn reduces our share of expenses. Included in this movement were benefits of \$21 million relating to the sale of a Japanese Data Centre during fiscal 2007; partly offset by:
- our offshore outpayments have grown by \$44 million in fiscal 2007 due to higher outbound roaming revenue, as well as growth in our operations in Europe, USA and Asia.

Paper purchase and printing costs decreased by 8.2% to \$135 million, largely due to our divestment of Australian Administrative Services in August 2006. The renegotiation of our printing contract has also contributed to the cost reduction.

A decrease in other goods and services purchased of \$24 million arose due to the inclusion of a restructuring provision of \$54 million in fiscal 2006, offset by an increase in dealer program incentives driven by increased volumes and rates and dealer performance commissions due to higher activity.

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Other expenses

Other expenses

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Property, motor vehicle and IT rental expense	592	598	(6)	(1.0%)
Net foreign currency conversion losses/(gains)	(7)	2	(9)	(450.0%)
Audit fees	10	8	2	25.0%
Service contracts and other agreements	2,177	1,836	341	18.6%
Promotion and advertising	422	356	66	18.5%
General and administration	949	792	157	19.8%
Other operating expenses	392	506	(114)	(22.5%)
Impairment and diminution expenses	389	329	60	18.2%
Total other expenses	4,924	4,427	497	11.2%

Our other expenses increased by 11.2% to \$4,924 million in fiscal 2007. The increase in other expenses in the current year includes \$76 million relating to a full year of expenses attributable to the merger of CSL with New World PCS, the consolidation of expenses from SouFun in the current fiscal year, and the impact of Astream which was acquired in the second half of the prior fiscal year. This increase is partially offset by the divestment of Australian Administrative Services in August 2006 of \$8 million.

The movement in the significant categories of other expenses is discussed below.

The largest component within this expense category is service contracts and other agreements. The expense increased by 18.6% to \$2,177 million in the fiscal year ended 30 June 2007, largely driven by the following factors:

- costs associated with transformational initiatives of \$242 million largely associated with the IT transformation, the IP enablement of our network, and supply chain management, which amounted to a year on year increase of \$193 million; and
- volume based increases totalling approximately \$110 million including increased activations, recontracts and billing enquiries following the launch of the Next G™ network and other revenue initiatives, as well as payments to Brightstar for management of our Channel Logistics Operations centre. A payment is made to Brightstar on the volumes of handsets shipped out from the centre to various sales channels.

Our promotion and advertising costs increased by 18.5% to \$422 million during the fiscal year mainly due to increased spend related to the launch of the Next G™ network and the Next IP™ network, as well as more marketing activity to stimulate growth of wireless and other BigPond related products. Another driver for the increase is expenditure used to drive print and online White Pages and Yellow™ usage and to promote Trading Post in a highly competitive environment. This is partly offset by spend in the prior fiscal year associated with the Commonwealth Games, which was not incurred in fiscal 2007.

General and administration expenses increased by 19.8% to \$949 million in fiscal 2007 driven by increases in IT - software costs, training costs, electricity, as well as the impact of a number of reclassifications. Our IT - software costs have increased during fiscal 2007 largely driven by the IT transformation, additional purchases of software licenses and the associated price adjustments. Training costs have increased mainly due to our focus on training and equipping our field staff in order to better service and satisfy customer needs, which is an important part of the transformation. Also contributing to the increase is higher electricity and property maintenance costs associated with running multiple networks, including the new Next G™ network, as well as cost associated with running the Internet

Full year results and operations review - June 2007

Data Centres. Furthermore, there were changes in booking practices during fiscal 2007 following improved invoicing procedures, which have seen costs previously booked to Service Contracts and Agreements now reclassified as accommodation and information technology costs totalling \$41 million. The increases have been partially offset by lower IT costs arising out of the re-negotiation of an IT vendor contract as part of the transformation strategy.

Our impairment and diminution expense has increased by 18.2% to \$389 million in the fiscal year ended 30 June 2007. This is mainly attributable to the following factors:

- impairment charges relating to the Trading Post mastheads of \$110 million, which arose as a result of strong competition in the traditional print and online classified markets and the risks associated with new initiatives;
- higher bad and doubtful debt expense due to write offs and increased aged debt associated with mobiles and broadband customers, as well as a large decrease in provisions in the prior corresponding period which related to a provision for doubtful debts no longer required;

Offset by:

- costs associated with the cancellation of partially completed capital projects included in the prior corresponding period, which were not incurred in the current fiscal year; and
- a provision for restructuring of \$32 million raised in the prior fiscal year, where no equivalent provision was raised in the current fiscal year.

Excluding the impact of the restructuring provision in the prior fiscal year, our inventory write down expense has increased primarily due to the impact of more slow moving mobile handsets being written off.

Other operating expenses decreased by 22.5% to \$392 million during the fiscal year primarily due to a provision for restructuring of \$105 million raised in the prior year.

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Share of net loss from jointly controlled and associated entities

Share of net loss from jointly controlled and associated entities

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Share of net loss/(gain) from jointly controlled and associated entities	7	(5)	12	(240.0%)

Our share of net loss from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments.

Prior year results included the net position of payments made to FOXTEL, offset by equity profits in Xantic. We sold the Xantic business in fiscal 2006 and no equivalent payments have been made to FOXTEL in the current year.

The current year result has primarily arisen due to a decline in performance from our 47.6% owned associated entity, Keycorp Limited.

Depreciation and amortisation

Our depreciation and amortisation expense remains a major component of our cost structure, reflecting our expenditure on capital items.

Depreciation and amortisation

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Depreciation	3,344	3,174	170	5.4%
Amortisation	738	904	(166)	(18.4%)
Total depreciation and amortisation	4,082	4,078	4	0.1%

Our depreciation and amortisation expense has risen by 0.1% to \$4,082 million for the year ended 30 June 2007.

During the last fiscal year, as part of the transformation strategy we undertook a strategic review of the service lives of our assets. The result of this was an acceleration of depreciation and amortisation of certain CDMA network, switching and software assets. For the prior year, this acceleration of depreciation and amortisation resulted in an expense of \$422 million. The continued impact of this review on depreciation and amortisation in the current year amounted to the inclusion of \$297 million. The majority of the year on year decrease relates to software amortisation. We have not accelerated the depreciation and amortisation of CDMA assets where those assets are deemed to have alternative future uses (i.e. the CDMA spectrum will continue to be used with the Next G™ network).

Excluding this impact, depreciation and amortisation grew by 3.5% to \$3,785 million. Contributing to this increase were:

- further growth in our communications plant due to transformation activity on the Next G™ and Next IP™ roll outs; and
- the acquisition of Astream (February 2006), the merging of New World PCS with Hong Kong CSL (March 2006) and the acquisition SouFun Holdings Limited (August 2006) contributing a total of \$74 million.

Full year results and operations review - June 2007

Net finance costs

Net finance costs

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Borrowing costs	1,053	963	90	9.3%
Finance leases	11	11	-	0.0%
Loss/(gain) in fair value hedge instruments	9	(26)	35	(134.6%)
Unwinding of discount on liabilities recognised at present value	43	40	3	7.5%
Other	28	19	9	47.4%
Finance costs	1,144	1,007	137	13.6%
Finance income	(57)	(74)	17	(23.0%)
Net finance costs	1,087	933	154	16.5%

Our finance costs are influenced by:

- our debt level;
- interest rates;
- our debt maturity profile;
- movements in our borrowing cost margins;
- our interest payment profile; and
- our level of cash assets (affects net debt).

Our net debt levels increased from \$13,022 million as at 30 June 2006 to \$14,586 million as at 30 June 2007. This increase was driven by lower net cash produced from the ongoing operations of the business and higher capital cash demands for our transformation investment.

Total finance costs have increased by 13.6% to \$1,144 million due to increased borrowing costs and a movement in gains/losses on our fair value hedge instruments. The increase in borrowing costs of 9.3% is primarily as a result of increased net debt levels combined with the impact of increased interest rates on the proportion of our debt that is floating. Interest expense on short-term borrowings increased due to higher levels of promissory notes held during the first three quarters of fiscal 2007, which were substantially refinanced by long-term borrowings, predominantly the 1 billion Euro borrowing in March 2007. The gain/(loss) on fair value of hedge instruments moved from a gain of \$26 million for fiscal 2006 to a loss of \$9 million in the current fiscal year due to valuation impacts of movements in our borrowing credit margins.

Income tax expense and franking account

Income tax expense

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Income tax expense	1,417	1,381	36	2.6%
Effective tax rate	30.2%	30.3%		(0.1)

Income tax expense increased by 2.6% to \$1,417 million in fiscal 2007, mainly as a result of the increase in operating profit before income tax expense compared to fiscal 2006.

Full year results and operations review - June 2007

The effective tax rate in fiscal 2007 is 30.2% compared with fiscal 2006 of 30.3%. This is consistent with the Commonwealth statutory income tax rate of 30.0%. The slightly lower effective tax rate is due to the impairment of the Trading Post mastheads offset by the non taxable profit on the sale of Australian Administration Services. In addition, the current year tax expense includes \$2 million for over provision of tax in the prior year compared to fiscal 2006 which included \$36 million for under provision of tax for the equivalent prior year.

During fiscal 2007, we have paid a total of \$1,618 million of tax instalments relating to fiscal 2006 and 2007 income tax years. Our combined exempting and franking account balance as at 30 June 2007 is \$98 million, and combined with credits that will arise from payment of our year end tax payable and credits that we may be restricted from distributing, our franking account balance is \$487 million. Franking credits of \$746 million will be used when we pay our final 2007 ordinary dividend during fiscal 2008. We believe our current franking balance when combined with credits that will arise from tax instalments made throughout fiscal 2008, will be sufficient to cover franking arising from our final dividend.

Full year results and operations review - June 2007

Major subsidiaries - financial summaries

Below is a summary of the major reporting lines for our three largest subsidiaries: Sensis, CSL New World Mobility and TelstraClear. This information is in addition to the product analysis previously provided in the document and is intended to show these businesses as stand alone entities.

Sensis financial summary

We are a leading provider of advertising and search services through our advertising, directories and local search business Sensis and its controlled entities. Sensis provides innovative advertising and search solutions through print, online, voice, wireless and satellite navigation networks.

Sensis financial summary

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	Change %
Total income	1,974	1,827	147	8.0%
Total expenses (including depreciation and amortisation)	1,161	917	244	26.6%
EBITDA	943	1,001	(58)	(5.8%)
EBIT	813	910	(97)	(10.7%)
CAPEX	226	100	126	126.0%
EBITDA margin	47.9%	54.8%		(6.9)

Amounts included for Sensis represent the contribution included in Telstra's consolidated result.

Sensis total income is split into the following categories:

Sensis total income

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	Change %
- Yellow™ revenue	1,203	1,172	31	2.6%
- WhitePages revenue	331	302	29	9.6%
- Classified revenue	125	142	(17)	(12.0%)
- Emerging business	127	95	32	33.7%
- SouFun revenue	49	-	49	n/m
Total advertising and directories	1,835	1,711	124	7.2%
Voice	119	104	15	14.4%
Other	14	11	3	27.3%
Total Sensis sales revenue	1,968	1,826	142	7.8%
Other income	6	1	5	500.0%
Total Sensis external income	1,974	1,827	147	8.0%

In fiscal 2007, Yellow™ revenue grew by 2.6% to \$1,203 million, driven by strong online usage and new initiatives such as Home@Yellow. Home@Yellow is a new website that offers people thinking of renovating their home all the information, advice and online tools they need to make an informed choice before contacting a supplier. The Yellow™ print result was characterised by challenges consistent with the rest of the advertising industry including economic weakness in the main Sydney metro market. In the print space, Sensis also launched a new Yellow™ directory during the year, Yellow™ in the Car which is a smaller version of the Yellow™ directory that people can use in their cars.

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White Pages® revenue grew by 9.6% to \$331 million. This was driven by continued strong advertiser support in both our metro and non metro directories due to new product initiatives such as coloured listings.

Classifieds revenue declined by 12.0% to \$125 million, largely as a result of competitive factors in the print market, which are causing declines in both circulation and the number of advertisers. We continue to experience strong growth in our online classifieds products but this has not offset the decline in our print products.

Emerging businesses delivered a 33.7% growth to \$127 million. This is as a result of the following factors:

- the location and navigation portfolio experienced strong double digit growth driven by accelerating demand for portable navigation units;
- demand for our online display advertising solutions grew strongly delivering over 90% growth;
- Adstream was acquired in February 2006 contributing a full twelve months of revenue in fiscal 2007; and
- revenue in sensis.com.au grew by over 200% due to the introduction of new product initiatives such as click manager and new distribution and syndication partnerships.

In August 2006, we acquired 55% (on an undiluted basis) of the issued capital of SouFun, a leading real estate and home furnishing and home improvement website in China, for a total cash consideration of US\$254 million (A\$ \$337 million). SouFun contributed \$49 million in revenue for fiscal 2007 and now operates in 56 cities in China and is on track to achieve its goal of operating in 100 cities by the end of calendar year 2008.

Voice revenue increased by 14.4% to \$119 million due to increased call volumes within 1234. New initiatives launched during the year regarding our 12455 & 12456 services contributed to this increase in revenue.

Total expenses increased by 26.6% to \$1,161 million. The increase in total expenses was mainly due to the following:

- the acquisitions of SouFun and Adstream contributed costs of \$30 million and \$10 million respectively;
- growth in labour expenses of 10.2% to \$379 million mainly attributable to the growth in staff numbers, primarily due to the acquisition of SouFun; and
- other expenses increased by 55.1% to \$469 million due to the following:
 - a write down of intangibles relating to the Trading Post mastheads totalling \$110 million largely as a result of increasing competition in the traditional print classified market, and the highly competitive online classified market and the risks associated with new initiatives;
 - an increase in promotion & advertising spend by \$18 million in the print directories, classifieds and voice portfolios. The additional spend was required to drive print usage, revenue growth and combat the competitive environment in classifieds; and
 - service contract costs increased by \$8 million due to increased voice call volumes and print/online contract volumes.

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In fiscal 2007, the Sensis depreciation and amortisation expense also grew by 43.3% to \$130 million. This is as a result of the acceleration of depreciation and amortisation following a revision of the service lives of business software programs that will be replaced as part of our transformation initiatives. This has contributed \$18 million and the impact of the SouFun acquisition has contributed \$6 million.

Excluding the impact of the Trading Post impairment charges of \$110 million, our total expenses increased by 14.6%.

The increase in capex largely related to an initiative to refresh, replace and upgrade Sensis' systems and core business processes as part of the transformation strategy.

CSL New World Mobility Group financial summary

The CSL New World Mobility Group (CSLNW) is a Hong Kong based mobile group. It was formed in March 2006 when we merged the CSL entity with New World PCS to form CSLNW. This transaction involved us exchanging a 23.6% share in CSL and receiving a controlling interest in the merged group of 76.4%.

CSLNW operates in the highly competitive Hong Kong mobile market, with the CSL business being one of Hong Kong's premium providers of mobile voice and data services and New World PCS targeting value conscious customers with a low cost business model. The merged entity provides a broad customer base for growth.

CSL New World Mobility Group financial summary

	Year ended 30 June			Year ended 30 June		
	2007 A\$m	2006 A\$m	Change %	2007 HK\$m	2006 HK\$m	Change %
Total income	997	833	19.7%	6,109	4,831	26.4%
Total expense (including depreciation & amortisation)	913	757	20.6%	5,464	4,145	31.8%
EBITDA	280	240	16.7%	1,740	1,390	25.2%
EBIT	84	77	9.0%	645	686	(6.0%)
CAPEX	80	98	(18.4%)	490	568	(13.7%)
EBITDA margin	28.0%	28.8%	(0.8)	28.5%	28.8%	(0.3)

Note: Amounts presented in HK\$ have been prepared in accordance with A-IFRS.

Amounts presented in A\$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from consolidation fair value adjustments.

Operating expenses include depreciation and amortisation. The reported operating expense exclusive of depreciation and amortisation was A\$593 million/ HK\$3,441 million for the year ended 30 June 2006 and A\$717 million/ HK \$4,369 million for the year ended 30 June 2007.

The 2007 figures have been updated since the market release on 9 August 2007.

Total income increased by 26.4% to HK\$6,109 million for fiscal 2007, largely due to the additional revenue generated as a result of the inclusion of the New World PCS business from March 2006. New World PCS contributed HK\$1,105 million to the revenue growth of HK\$1,278 million. The remaining growth was a result of increased activity, driven by rising data, international voice, mobile virtual network operator (MVNO) and prepaid revenues, offset by a decline in local voice revenues after sustained pressure on prices. Mobile handset revenue also increased after recent handset promotions.

Total expenses increased by 31.8% to HK\$5,464 million mainly due to the following:

- operating expenses of HK\$1,104 million relating to New World PCS being included for the full year;
- increased handset subsidies mainly due to aggressive marketing offers; and

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- depreciation and amortisation expense increased after carrying higher network assets due to the roll out of a 3GSM network.

EBITDA increased by 25.2% to HK\$1,740 million whilst EBIT decreased by 6.0% to HK\$645 million. Again this was mainly due to the inclusion of the New World PCS business.

The HK\$ exchange rate had an unfavourable impact on revenue of A\$56 million for the fiscal year, however the majority of this was offset by the favourable position that occurred with regards to expenses.

TelstraClear financial summary

TelstraClear is a full service carrier in New Zealand and has been operating in its current form since December 2001. TelstraClear is a voice and data company, providing innovative market leading products, services and customer focus to the business, government, wholesale and residential sectors. The New Zealand market is slowly undertaking regulatory change and although legislation has been passed, these regulatory changes have not yet impacted the market, resulting in continued constraints around growth opportunities.

TelstraClear financial summary

	Year ended 30 June			Year ended 30 June		
	2007 A\$m	2006 A\$m	Change %	2007 NZ\$m	2006 NZ\$m	Change %
Total income	573	620	(7.6%)	657	693	(5.2%)
Total expense (including depreciation & amortisation)	632	645	(2.0%)	717	713	0.6%
EBITDA	72	111	(35.1%)	82	124	(33.9%)
EBIT	(59)	(25)	(136.0%)	(60)	(20)	(200.0%)
CAPEX	115	126	(8.7%)	131	141	(7.1%)
EBITDA margin	12.6%	17.9%	(5.3)	12.5%	17.9%	(5.4)

Note: Amounts presented in NZ\$ represent the New Zealand business excluding intercompany transactions and have been prepared in accordance with A-IFRS.

Amounts presented in A\$ represent amounts included in Telstra's consolidated result and include the Australian dollar value of adjustments to consolidate TelstraClear into the Group result.

For the year ended 30 June 2007, revenue declined by 5.2% to NZ\$657 million as a result of:

- a decline in calling revenues due to lower usage and competitor-led price erosion; and
- internet product competition resulting in price erosion, specifically in the small business segments.

This reduction was offset by:

- an increase in access revenue due to a refocus on areas where TelstraClear has its own network and can provide a differentiated offering; and
- an increase in data revenue in the wholesale segment leveraging the existing network.

Total operating expense including depreciation and amortisation increased by 0.6% to NZ\$717 million as a result of:

- an increase in impairment expenses after our decision to shut down a pilot mobile network in the provincial city of Tauranga amounting to \$17 million offset by improvements in other areas of the business;
- an increase in promotion and advertising targeting improved brand awareness.

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This increase was offset by:

- a decrease in outpayments impacted by lower fixed to mobile termination rates, improved data circuit pricing and reduced pricing in global internet access. In addition, lower revenues and call volumes have contributed to lower outpayment costs; and
- a release of an onerous property lease provision.

The NZ\$ exchange rate had an unfavourable impact on revenues by A\$15 million year on year and a favourable impact on expenses by A\$16 million year on year.

- Capex has decreased by 7.1% to NZ\$131 million due to cancellation of the proposed mobile network rollout.

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Balance sheet

Balance Sheet

	As at		Change \$m	2007/2006 (% change)
	30-Jun-07 \$m	30-Jun-06 \$m		
Current assets				
Cash and cash equivalents	823	689	134	19.4%
Other current assets	4,530	4,210	320	7.6%
Total current assets	5,353	4,899	454	9.3%
Non current assets				
Property, plant and equipment	24,607	23,592	1,015	4.3%
Intangibles - goodwill	2,126	2,073	53	2.6%
Intangibles - other	4,499	4,050	449	11.1%
Other non current assets	1,290	1,610	(320)	(19.9%)
Total non current assets	32,522	31,325	1,197	3.8%
Total assets	37,875	36,224	1,651	4.6%
Current liabilities				
Borrowings	2,743	1,982	761	38.4%
Other current liabilities	6,691	5,917	774	13.1%
Total current liabilities	9,434	7,899	1,535	19.4%
Non current liabilities				
Borrowings	11,619	11,442	177	1.5%
Other non current liabilities	4,242	4,049	193	4.8%
Total non current liabilities	15,861	15,491	370	2.4%
Total liabilities	25,295	23,390	1,905	8.1%
Net assets	12,580	12,834	(254)	(2.0%)
Equity				
Equity available to Telstra entity shareholders	12,329	12,588	(259)	(2.1%)
Minority interests	251	246	5	2.0%
Total equity	12,580	12,834	(254)	(2.0%)

We continue to maintain a strong financial position with net assets of \$12,580 million as at 30 June 2007, reducing from \$12,834 million at 30 June 2006. The decrease in net assets comprised an increase in total assets of \$1,651 million offset by an increase in total liabilities of \$1,905 million.

The movement in total assets of \$1,651 million was primarily due to:

- Cash and cash equivalents increasing by \$134 million to \$823 million, due mainly to an increase in bank deposits and bills of exchange maturing in less than 90 days as part of our normal working capital requirements;
- Other current assets increased by \$320 million to \$4,530 million, driven by trade debtors increasing consistent with an increase in revenue activity, network inventory & inventory on hand primarily driven by increased stock to support sales of NextG™. This was offset by a decline in accrued revenue;
- Property, plant and equipment increased \$1,015 million mainly due to additions exceeding any depreciation as a result of the high capital expenditure associated with our transformation spend, particularly NextG™ and Next IP networks;
- Intangibles increased due to goodwill acquired on acquisition of 55% (on an undiluted basis) of the issued capital of SouFun Holdings Ltd in August 2006, partially offset by lower intangibles after divestment of Australian Administration Services Pty Ltd, which also occurred in August 2006;

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- Other intangibles increased by \$449 million mainly due to the developing/acquisition of software assets as part of our IT Transformation, focusing on customer care & billing, inventory management and supply chain services;
- Other non-current assets decreased by \$320 million to \$1,290 million, due mainly to a decrease in the actuarially determined value of our defined benefit pension asset and a decrease in our cross currency swap receivables in line with currency movements and our hedging requirements. Finance lease debtors arising from our solutions management business and interest rate swaps partially offset the decrease;

The movement in total liabilities of \$1,905 million was primarily due to:

- Total current and non-current borrowings, excluding derivatives increased by \$938 million to \$14,362 million. This movement is mainly due to the combination of new borrowings, principally a \$1,680 million (1 billion Euro) long term Euro bond issue in March 2007, a private placement of \$250 million and two domestic private placements totalling \$375 million, offset by a revaluation gain on offshore borrowings of approximately \$876 million, a maturing long term Euro bond of \$376 million and bank loan maturity of \$110 million. The movement in current borrowings of \$761 million includes \$1,273 million of borrowings which were previously non-current and were reclassified;
- Other current liabilities increased \$774 million, mainly after higher accruals and payables due to higher levels of construction activity undertaken in the last quarter, compared to the levels that occurred in 2006 fiscal year. Also contributing to the increase were higher derivative liabilities, partially offset by a reduction in the redundancy provision due to use throughout the year; and
- Other non-current liabilities increased mainly due to the revaluation of derivatives, particularly our cross currency swaps partially offset by decreases in deferred tax liability and provision for restructuring costs.

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Cash flow

Cash flow data

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Receipts from customers (inclusive of GST)	26,187	25,191	996	4.0%
Payments to suppliers and employees (inclusive of GST)	(16,049)	(14,756)	(1,293)	8.8%
Net cash generated from operations	10,138	10,435	(297)	(2.8%)
Income taxes paid	(1,618)	(1,882)	264	(14.0%)
Net cash provided by operating activities	8,520	8,553	(33)	(0.4%)
Net cash used in investing activities	(5,621)	(3,974)	(1,647)	41.4%
Operating cash flows less investing cash flows	2,899	4,579	(1,680)	(36.7%)
Movements in borrowings/finance leases	1,760	469	1,291	275.3%
Staff payments of share loans	18	24	(6)	(25.0%)
Dividends paid	(3,479)	(4,970)	1,491	(30.0%)
Finance costs paid	(1,056)	(945)	(111)	11.7%
Purchase of shares for employee share plans	-	(6)	6	-
Net cash used in financing activities	(2,757)	(5,428)	2,671	(49.2%)
Net increase/(decrease) in cash	142	(849)	991	(116.7%)

Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations. Net cash provided by operating activities includes receipts from trade and other receivables, payments to suppliers and employees, income tax paid, and GST received, paid and remitted to the Australian Taxation Office.

During fiscal 2007, net cash provided by operating activities decreased by 0.4% to \$8,520 million. Higher revenue and lower net working capital items were offset by an increase in payments to suppliers and employees. The key drivers of our increased revenue were our mobiles and broadband products, as well as increased revenue from our acquisition activities. Our higher expense payments were mainly due to higher cost of mobile sales as we continue to invest in our subscriber base to drive future growth, as well as an increase in expenditure relating to transformation activities.

In addition, our cash paid to the Australian Taxation Office was \$264 million lower in fiscal 2007 mainly due to a higher final tax payment in fiscal 2006 arising from a low instalment rate in fiscal 2005. There was also a tax refund relating to fiscal 2006 received and netted against tax payments for fiscal 2007 and a lower tax instalment rate for fiscal 2007.

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Net cash used in investing activities

Net cash used in investing activities represents amounts paid for capital assets and investments, offset by cash receipts from the sale of capital assets and investments, and other cash receipts from our investing activities.

Net cash used in investing activities

	Year ended 30 June			
	2007 \$m	2006 \$m	Change \$m	2007/2006 (% change)
Switching	956	452	504	111.5%
Transmission	557	426	131	30.8%
Customer access	629	800	(171)	(21.4%)
Mobile telecommunications networks	1,036	1,043	(7)	(0.7%)
International assets	317	338	(21)	(6.2%)
Capitalised software	995	556	439	79.0%
Specialised network functions	295	237	58	24.5%
Other	867	340	527	155.0%
Operating capital expenditure	5,652	4,192	1,460	34.8%
Other intangibles	-	63	(63)	-
Capital expenditure before investments	5,652	4,255	1,397	32.8%
Add: investment expenditure	330	48	282	587.5%
Capitalised expenditure and investments	5,982	4,303	1,679	39.0%
Sale of property, plant and equipment and intangibles	(35)	(56)	21	(37.5%)
Sale of shares in controlled entities and other investments (net of cash disposed)	(231)	(127)	(104)	81.9%
Repayment of loans to jointly controlled and associated entities	24	-	24	n/m
Proceeds from finance lease principal amounts	(84)	(30)	(54)	180.0%
Net cash consideration from CSL New World Mobility merger	21	(42)	63	(150.0%)
Interest received	(56)	(74)	18	(24.3%)
Net cash used in investing activities	5,621	3,974	1,647	41.4%

In fiscal 2007, our expenditure on operating capital, intangibles and investments amounted to \$5,982 million, an increase of 39.0% on the previous fiscal year, largely driven by our transformation program.

The increases in our operating capital expenditure were across most capital expenditure categories, with the exception of a decrease in customer access. The drivers of our operating capital expenditure for the year were as follows:

- higher domestic switching as a result of our wireline transformation program. Telstra's Next IP™ network launched in April 2007 involves transforming our existing voice, data, IP and DSL networks into a single network. It will upgrade the services offered, eliminate duplication and reduce complexity. Most of the expenditure relates to IP enablement of our network involving the installation of new technology infrastructure and the replacement of redundant technology;
- higher transmission expenditure due to increased transmission installation to cater for increased IP traffic, as well as additional capacity to support the roll out of the new Next G™ network. Our Next IP™ network will create a powerful single integrated platform that will enable a seamless user experience across all devices and platforms with one-command simplicity. Another driver is the increased demand for broadband and other high speed products, which necessitates higher transmission capacity;
- lower expenditure on customer access due to the achievement of operational and technology efficiencies in the access network through the deployment of a new generation of Digital Subscriber Line (DSL) equipment, increased utilisation of available network capacity, and other alternative technology solutions. The reduced costs were also

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driven by the completion of an upgrade program to increase ADSL capacity in the exchange network completed in fiscal 2006. This is partly offset by increased expenditure on the upgrade of Hybrid Fibre Coaxial Cable which forms part of the wireline transformation program;

- slightly lower expenditure on our mobile networks primarily due to the Next G™ network which was deployed ahead of schedule which resulted in fewer sites being built in fiscal 2007 and a corresponding reduction in 3G 850 equipment costs. Spend on the 2GSM and CDMA networks was rationalised as the Next G™ network is the main focus. This was partially offset by higher spend on the network coverage and capacity and the asset replacement costs to meet the continued increase in traffic and capability of the network. Higher spend was also incurred on the deployment of the High Speed Downlink Packet Access (HSDPA) capability in fiscal 2007;
- lower expenditure on international assets. Purchase of international transmission capacity is ongoing to meet internet traffic requirements with the United States and Asia;
- significantly higher expenditure on capitalised software as we embark on a 5 year program to transform our IT environment through deployment of new capabilities and reduction in the number of systems with a focus on customer care and billing, inventory management and supply chain services. Many projects have been accelerated from fiscal 2006 which is causing the substantial rise in expenditure for fiscal 2007. There has also been considerable spend on Sensis Product Development initiatives;
- increased expenditure on specialised network functions, specifically transformation programs related to 3G growth and the IP network. Expenditure also increased to improve the reliability and robustness of the network and BigPond rebuild program; and
- higher expenditure on other assets was predominantly driven by expenditure on IT infrastructure to support the IT transformation program and network infrastructure to support the next generation network. The next generation network related programs included initiatives such as air conditioning requirements at network sites and new telepower equipment to meet growth requirements in Telstra network sites. There was significant spend on IT hardware as we move from leasing to purchasing outright, which has contributed \$337 million to the year on year increase. Additional spend has also been incurred on improving the reliability and robustness of the network and IT infrastructure.

Our other intangibles expenditure has reduced by \$63 million to nil during fiscal 2007, as the expenditure in fiscal 2006 related to the acquisition of customer bases from Keycorp relating to their payment transaction network carriage services business.

During the year, our cash payments for investments and intangibles amounting to \$330 million largely resulting from the following items:

- \$314 million for the acquisition of 55% (on an undiluted basis) of the issued capital of SouFun (net of cash acquired);
- \$13 million for an additional 25% interest in the issued share capital of 1300 Australia Pty Ltd; and
- other minor investments totalling \$3 million.

Our cash proceeds from asset sales in the year ended 30 June 2007 included the following:

- sale of property, plant and equipment for cash receipts of \$35 million;
- the sale of our investment in the Australian Administrative Services group for consideration of \$208 million net of cash disposed;
- the sale of our investment in Platefood for a total consideration of \$10 million;

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- \$9 million of additional proceeds from the sale of Xantic BV in fiscal 2006; and
- sale of Super Buzz and SayG'Day businesses for cash receipts of \$4 million.

A cash payment of \$21 million for a price adjustment to New World Mobility has also accrued, representing an adjustment to the \$44 million cash received in fiscal 2006.

Net cash used in financing activities

Our net cash used in financing activities decreased by 49.2% to \$2,757 million for the year ended 30 June 2007.

During fiscal 2007 we received \$2,304 million from new long term borrowings and repaid \$375 million of maturing long term debt. After short term borrowings, finance leases and hedging activities are added we experienced a net increase from borrowing and financing activities of \$1,760 million, an increase of \$1,291 million on last year. This increase was driven by lower net cash produced from the ongoing operations of the business combined with higher capital cash demands for the transformation investment, partly offset by an increase in liquidity.

A significant portion of our net financing cash outflows relate to payment of dividends. Dividends paid in fiscal 2006 were higher than the current fiscal year due to shareholders receiving payment of two additional special dividend of 6c each per share amounting to \$1,492 million.

The increase in finance costs paid was mainly the result of higher average debt levels, in conjunction with marginally higher interest rates.

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Glossary

2G GSM: Second Generation Global System for mobile communications - refers to the initial group of wireless technology standards that were digital instead of analogue.

3GSM: Third Generation Global System for mobile communications - is the evolution of the current GSM and CDMA 2G and 2.5G technology to support voice and high speed data and multimedia services.

3GSM 850: Third generation mobile technology operating on 850Mhz spectrum.

3GSM 2100: Third generation mobile technology operating on 2100Mhz spectrum.

ACCC: Australian Competition and Consumer Commission.

A-IFRS: Australian equivalents of International Financial Reporting Standards.

ADSL: Asymmetric Digital Subscriber Line - is a high-speed broadband technology that provides access to the internet. It allows high speed data to be carried over copper network phone lines.

ADSL 2+: Our upgraded national high speed broadband network offering improved fixed line ADSL speeds.

ARPU: Average Revenue Per User

CDMA: Code Division Multiple Access - a mobile standard that provides voice, data, fax and short messaging services.

Churn: The net number of subscribers switching between telecommunication providers.

EBIT: Earnings Before Interest and Tax. This is a measure of company profitability.

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortisation. This is a measure of company profitability.

EVDO: Evolution Data Only or Evolution Data Optimised - This is an addition to the existing CDMA network that supports high speed packet data transmission.

HDSL: High bit rate Digital Subscriber Line.

HSDPA: High speed downlink packet access - This is an addition to the existing 3GSM network that supports high speed downlink packet access.

HFC: Hybrid Fibre Coaxial Cable - a shared access architecture using optical fibre between exchanges and hubs in suburban streets, and coaxial cables between the hubs and customers to carry FOXTEL pay TV and BigPond Cable services.

HiBIS: Higher Bandwidth Incentive Scheme - a government subsidy scheme.

IP: Internet Protocol - a standard set of rules for the carriage of digital information such as voice, video, data and images, across a global network.

IP Core: The core element of a network that carries and logically splits voice, data and video using IP technology.

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IPMAN: Telstra IP Solution product providing a high-speed data networking solution that offers a cost-effective means of interconnecting offices throughout Australia. IP MAN solution provides the customer with 'bandwidth-on-demand', the ability to dynamically change the data access capacity of their network from 2Mbps up to 1000Mbps from their desk, via the Internet.

IPWAN: Telstra IP Solution product, providing Corporate Virtual Private Networks to customers. IP WAN uses Telstra's private network infrastructure to combine all of a company's communications between sites and mobiles.

ISDN: Integrated Services Digital Network - an international communications standard for sending voice, video and data over digital telephone lines or normal telephone wires. An early form of digital technology, its use has been largely surpassed by ADSL.

MMS: Multimedia Messaging Service.

Next G™: Telstra's trade mark name for its 3G mobile network that operates on the 850Mhz spectrum. This third generation network is technically known as the 3GSM850 Mhz.

Next IP™: Telstra's trade mark name for the integrated national IP network.

PSTN: Public Switched Telephone Network - referred to as the 'fixed line' network, it is the standard home telephone service delivered over copper wires.

Resale Churn: Is a movement of a fixed service between Telstra Wholesale and Telstra Retail, or between Telstra Wholesale resellers on the Telstra access network.

SARC: Subscriber acquisition and recontract costs.

SIO: Services in operation

SMS: Short Messaging Service - the text based message service on mobile phones.

ULL: Unconditioned or Unbundled Local Loop - the local loop is the copper wire that connects the Telstra exchange in your area to your house. Telstra is required to provide access to this wire to other operators. Other telecommunications providers can provide customers with their own services, like broadband or a telephone service, by installing their own equipment in Telstra exchanges and connecting to the 'loop'.

WAN: Wide Area Network

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Restatement of previously reported results

The following tables show the impact on the Telstra Group of adopting UIG 4 and of amending the impact of adopting A-IFRS to our previously reported income statement and balance sheet.

Income Statement	Adjustments to 30 June 2006 \$m
Decrease in revenue (excluding finance income)	(38)
Decrease in goods and services purchased	(29)
Decrease in EBITDA	(9)
Decrease in depreciation and amortisation	(9)
EBIT	-
Increase in finance income	8
Increase in finance costs	5
Income tax expense	1
Increase in profit for the year	2

Balance Sheet	Adjustments as at 30 June 2006 \$m
Increase/(decrease)	
Assets	
Trade and other receivables (current)	20
Trade and other receivables (non current)	59
Property, plant and equipment	(30)
Total assets	49
Liabilities	
Borrowings (current)	13
Borrowings (non current)	33
Deferred tax liabilities	1
Total liabilities	47
Net assets	2
Equity	
Retained profits	2
Total equity	2

Summary Report ⁽ⁱ⁾ Half Yearly Data (\$ millions)	Half1 Dec-04	Growth	Half2 Jun-05	Growth	Full Year Jun-05	Half1 Dec-05	Growth	Half2 Jun-06	Growth	Full Year Jun-06	Growth	Half1 Dec-06	Growth	Half2 Jun-07	Growth	Full Year Jun-07	Growth
Revenue																	
PSN products																	
Basic access	1,700	5.6%	1,662	2.1%	3,362	3.9%	1,657	1,660	(0.1%)	3,317	(1.3%)	1,653	0.4%	1,670	0.6%	3,323	0.3%
Local calls	689	(11.5%)	594	(14.7%)	1,284	(14.7%)	553	470	(20.9%)	1,023	(20.3%)	432	(21.9%)	414	(12.0%)	845	(17.4%)
PSN value added services	125	(6.1%)	124	(1.0%)	250	(3.6%)	123	123	(1.2%)	246	(1.4%)	125	1.3%	132	7.6%	257	4.5%
National long distance calls	527	(8.9%)	486	(10.5%)	1,013	(9.7%)	470	442	(8.9%)	913	(9.7%)	408	(13.2%)	399	(9.7%)	808	(11.5%)
Fixed to mobile	806	(0.3%)	761	(5.3%)	1,566	(1.9%)	761	749	(1.6%)	1,490	(4.9%)	749	(1.6%)	738	(1.2%)	1,487	(0.2%)
International direct	124	(10.7%)	110	(13.0%)	234	(11.8%)	106	96	(14.9%)	201	(14.2%)	94	(11.0%)	90	(5.9%)	184	(8.5%)
Fixed interconnect	172	(5.5%)	163	(5.2%)	335	(3.2%)	160	144	(10.5%)	309	(7.8%)	144	(9.9%)	132	(11.1%)	276	(10.5%)
Total PSN products	4,144	(2.0%)	3,900	(4.9%)	8,044	(3.4%)	3,831	3,868	(6.0%)	7,699	(6.8%)	3,515	(6.2%)	3,575	(1.7%)	7,100	(6.1%)
ISDN products																	
Inbound calling products	453	(4.2%)	437	(3.7%)	890	(3.9%)	420	386	(7.6%)	806	(6.9%)	383	(6.9%)	367	(5.0%)	749	(7.1%)
Payphones	63	(12.6%)	58	(15.5%)	121	(14.0%)	54	50	(4.6%)	104	(14.2%)	48	(11.6%)	44	(11.6%)	92	(11.5%)
Customer premises equipment ⁽ⁱⁱ⁾	108	(5.6%)	123	31.3%	231	23.5%	135	139	13.6%	274	18.8%	151	11.6%	168	20.3%	318	16.1%
Intercarrier access services ⁽ⁱⁱⁱ⁾	50	(2.9%)	58	40.3%	108	16.6%	69	87	25.4%	152	39.8%	87	25.4%	94	13.9%	181	19.1%
Other fixed telephony	176	(1.6%)	164	(6.6%)	341	(1.6%)	163	156	(4.3%)	318	(6.3%)	156	(4.6%)	161	(3.4%)	317	(0.3%)
Total Fixed Telephony	5,211	(2.0%)	4,944	(4.0%)	10,155	(3.0%)	4,880	4,887	(5.2%)	9,567	(5.8%)	4,643	(4.9%)	4,617	(1.5%)	9,260	(3.2%)
Mobiles																	
Mobile services - Retail (incl mobile interconnection)	2,179	8.8%	2,123	6.6%	4,302	7.7%	2,274	2,279	4.4%	4,503	4.7%	2,416	12.9%	2,516	12.9%	4,932	9.5%
Mobile services - Wholesale	11	48.9%	13	65.7%	24	57.5%	16	20	50.8%	36	48.3%	26	55.6%	25	28.9%	51	41.7%
Total Mobiles	2,190	8.9%	2,136	6.8%	4,327	7.9%	2,291	2,299	4.8%	4,539	4.9%	2,442	13.0%	2,541	13.0%	4,983	9.8%
Total Broadband	2,388	8.7%	2,320	7.1%	4,708	7.9%	2,502	2,504	4.8%	5,006	6.3%	2,789	11.8%	2,902	15.9%	5,701	13.9%
Retail broadband	142	(1.5%)	133	(12.3%)	275	(7.0%)	117	102	(21.1%)	220	(20.9%)	79	(71.1%)	65	(36.2%)	144	(24.5%)
Wholesale broadband	109	71.8%	159	82.2%	268	79.1%	209	260	64.1%	469	75.1%	279	39.9%	288	10.8%	566	21.1%
VAS & Content	431	37.3%	341	48.2%	682	45.2%	312	9	(93.3%)	19	(93.3%)	9	(93.3%)	10	(93.3%)	20	(93.3%)
Internet	61	(0.4%)	62	1.3%	123	5.2%	70	73	17.2%	143	15.9%	81	15.0%	76	(5.4%)	157	9.8%
Specialised Data	500	(3.1%)	461	(11.1%)	962	(7.1%)	454	429	(6.9%)	884	(4.1%)	404	(11.1%)	392	(8.4%)	796	(10.0%)
IP Access	100	38.8%	132	44.3%	232	41.9%	159	183	38.9%	342	47.6%	193	21.4%	250	36.4%	443	29.5%
Wholesale Internet & Data	83	12.0%	96	14.8%	179	13.5%	100	115	19.8%	215	19.8%	111	19.9%	120	7.4%	231	7.4%
IP & Data Access	745	2.9%	751	0.2%	1,496	1.5%	783	783	5.2%	1,564	6.7%	801	5.9%	858	4.5%	1,627	2.7%
Managed Network Services	167	5.1%	170	(0.3%)	337	2.3%	159	158	(0.6%)	316	(6.3%)	136	(14.0%)	128	(18.5%)	265	(16.1%)
IT Services	285	291.5%	287	237.8%	572	265.6%	298	426	4.5%	624	9.0%	279	(6.4%)	306	(6.0%)	585	(6.3%)
Business Applications	60	5.0%	58	6.6%	118	5.8%	54	59	15.5%	112	(4.7%)	61	23.3%	73	25.3%	135	20.5%
Other	1	(5.7%)	2	87.3%	3	38.0%	1	2	100.0%	3	203.3%	25	1938.8%	43	2058.4%	68	n/m
Business Services and Applications	513	76.9%	517	66.4%	1,030	71.4%	512	543	(0.3%)	1,055	2.4%	501	(2.1%)	552	1.7%	1,053	(0.2%)
Advertising and Directors ^(iv)	880	16.3%	697	(20.0%)	1,585	18.2%	734	767	6.3%	1,711	10.0%	824	(12.7%)	1,011	(31.8%)	1,835	7.2%
CSL New World ^(v)	380	0.9%	353	(1.3%)	734	1.1%	373	457	29.3%	830	13.1%	519	(39.1%)	481	(5.2%)	1,000	20.5%
TelstraClear	304	8.0%	320	9.7%	625	8.8%	321	299	(6.5%)	620	(0.8%)	286	(11.2%)	287	(4.2%)	573	(7.6%)
Offshore Services Revenue ^(vi)	119	104.5%	133	45.7%	252	68.6%	139	156	17.3%	285	17.0%	173	24.4%	175	11.9%	348	18.0%
PayTV Bundling	121	86.1%	142	59.6%	263	70.7%	164	164	15.6%	320	21.6%	164	5.3%	180	9.6%	344	7.5%
Other minor items	155	166.8%	165	43.1%	320	84.5%	175	185	11.8%	360	12.5%	136	(23.3%)	135	(26.9%)	271	(24.7%)
Elimination for wireless broadband		(10.0%)		(10.0%)		(10.0%)	(31)	(42)	(10.0%)	(73)	(10.0%)	(68)	(10.0%)	(21)	(10.0%)	(264)	(10.0%)
Sales Revenue	11,275	7.8%	10,885	(3.9%)	22,161	(6.9%)	11,420	11,292	(1.2%)	22,712	2.3%	11,930	(3.8%)	12,044	(0.7%)	23,073	4.2%
Other revenue	11	(17.6%)	9	(10.7%)	20	(14.3%)	10	12	(20.3%)	22	7.9%	15	(47.2%)	21	73.4%	36	63.0%
Total Revenue	11,286	7.8%	10,895	(3.9%)	22,181	(6.8%)	11,430	11,304	(1.3%)	22,734	2.3%	11,945	(3.9%)	12,065	(0.7%)	23,109	4.3%
Other income	74	(72.3%)	187	36.5%	261	(35.7%)	129	199	74.3%	328	25.7%	152	(17.8%)	99	(50.3%)	251	(23.5%)
Externat Income	11,360	5.8%	11,082	(6.3%)	22,442	(6.0%)	11,559	11,503	(1.8%)	23,062	2.8%	12,103	(2.1%)	12,163	(0.5%)	23,360	3.9%
Selected statistical data																	
Mobile voice telephone minutes (millions)	3,404	13.0%	3,342	6.7%	6,746	115.3%	3,384	3,510	(0.6%)	7,361	9.1%	4,173	23.3%	4,467	27.3%	8,640	17.4%
Short Message Service (SMS) (number of messages) (millions)	1,142	23.0%	1,147	12.9%	2,289	125.3%	1,318	1,700	15.4%	3,019	31.9%	2,227	68.9%	2,675	57.3%	4,902	62.4%
Mobile services in operation (thousands)	7,983	14.3%	8,227	8.2%	8,227	8.2%	8,582	8,529	3.7%	8,529	3.7%	8,892	3.6%	9,212	8.0%	9,212	8.0%
Broadband Retail subscribers (thousands)	616	115.8%	842	99.1%	842	99.1%	1,177	1,506	78.9%	1,506	78.9%	1,890	60.5%	2,406	59.7%	2,406	59.8%
Broadband Wholesale subscribers (thousands)	611	117.9%	889	134.4%	889	134.4%	1,164	1,164	90.3%	1,427	60.7%	1,622	39.3%	1,762	23.5%	2,162	23.5%
Total Broadband subscribers (thousands)	1,227	142.8%	1,731	115.8%	1,731	115.8%	2,341	2,670	69.5%	2,924	69.5%	3,512	50.0%	4,168	42.1%	4,168	42.1%
Narrow band subscribers (thousands)	1,201	1.9%	1,205	1.0%	1,205	1.0%	1,143	1,027	(4.8%)	1,027	(14.8%)	819	(28.3%)	654	(36.3%)	654	(36.3%)
Retail basic access lines in service (millions)	8,21	(5.0%)	8,05	(4.6%)	8,05	(4.6%)	7,78	7,78	(3.3%)	7,78	(3.3%)	7,78	(0.0%)	7,78	(0.0%)	7,78	(0.0%)
Wholesale basic access lines in service (millions)	1,98	15.8%	2,07	12.3%	2,07	12.5%	2,14	2,16	4.3%	2,16	4.3%	2,12	(1.2%)	1,98	(8.3%)	1,98	(8.3%)
Total Basic access lines in service (millions)	10,19	(1.8%)	10,12	(1.6%)	10,12	(1.6%)	9,94	9,94	(1.8%)	9,94	(1.8%)	9,86	(1.7%)	9,76	(1.6%)	9,76	(1.6%)
Local calls (number of calls) (millions)	4,412	(8.7%)	4,057	(11.1%)	8,469	85.5%	3,882	3,550	(12.6%)	7,432	(12.2%)	3,390	(12.7%)	3,138	(11.6%)	6,528	(12.2%)
National long distance minutes (millions)	3,977	(8.4%)	3,766	(9.8%)	7,743	85.4%	3,666	3,499	(5.8%)	7,215	(6.8%)	3,594	(2.0%)	3,536	(0.4%)	7,130	(4.4%)
Fixed to mobile minutes (millions)	2,206	5.1%	2,169	2.0%	4,375	105.7%	2,234	2,257	4.1%	4,491	4.7%	2,339	4.6%	2,348	4.0%	4,687	4.4%
International direct minutes (millions)	304	(10.1%)	276	(11.8%)	580	85.3%	273	261	(5.4%)	534	(7.9%)	264	(3.3%)	264	(1.1%)	528	(1.1%)
ISDN access (basic lines equivalents) (thousands) ^(vii)	1,200	8.3%	1,208	3.4%	1,208	3.4%	1,205	1,214	0.4%	1,214	0.5%	1,214	1.8%	1,172			