annual
report
2006

no one else...

Telstra

can do what Telstra does.

Telstra is the only communications company in Australia that can provide customers with a truly integrated telecommunications experience across fixed line, mobiles, broadband (BigPond®), information, transaction and search (Sensis®) and pay TV (FOXTEL).

Our vision is to do for customers what no one else has done: create a world of 1-click, 1-touch, 1-button, 1-screen, 1-step solutions that are simple, easy and valued by individuals, businesses, enterprises and government.

Telstra Corporation Limited
ABN 33 051 775 556

Telstra Corporation Limited is an Australian company listed on the Australian Stock Exchange (ASX) and the New Zealand Stock Exchange (NZX) as well as the New York Stock Exchange (NYSE). This Annual Report has been prepared solely to meet the requirements of the Corporations Act, the ASX Listing Rules and other Australian regulations.

In previous years Telstra has prepared its annual report to comply with both the Australian Corporations Act and the US Securities and Exchange Commission (SEC) Form 20-F requirements.

In December 2005 the SEC proposed rules that, if adopted, would make it easier for foreign companies to terminate their SEC registration. If the SEC's proposed deregistration rules are adopted, Telstra intends to deregister from the SEC ongoing reporting obligations and to delist its ADRs from the NYSE at the earliest opportunity, which may be accomplished by the end of this calendar year. If Telstra is unable to deregister before the end of calendar 2006, then it will lodge a Form 20-F with the SEC in December 2006. If Telstra lodges a Form 20-F with the SEC, then it will also lodge the Form 20-F with the ASX.

Except where otherwise stated, the information contained in this Annual Report was previously released to the market on 10 August 2006 and was current as of that date.

Shareholders should also refer to Telstra's Annual Review for additional information about the company. Copies of the Annual Report and the Annual Review are available on the Internet:

www.telstra.com.au/abouttelstra/investor/annual_reports.cfm

Copies of the Annual Report and the Annual Review may also be requested from the Share Registry by calling 1300 88 66 77.

FRONT COVER

Features Nick Dionisopoulos from Telstra Operations. Nick is part of the first wave of students to experience the benefits of the newly launched Telstra Learning Academy. The Learning Academy is equipping our technical and engineering people with the right skills to build, operate and maintain next-generation networks and better serve customers.

Contents

1. Full year results and operations review - June 2006 3

2. Corporate Governance and Board Practices 49

3. Corporate Social Responsibility 63

4. Shareholder Information 65

5. Directors' report including Remuneration report 69

6. Financial report 117

7. Freedom of Information 323

Contents

™: trade mark of Telstra Corporation Limited ABN 33 051 775 556

®: registered trade mark of Telstra Corporation Limited ABN 33 051 775 556

*: CHESS is a registered trade mark of McDonnell Information Systems Group Plc

^: Trading Post is a registered trade mark of Research Resources Pty Ltd.

†: Hutchinson 3G is a registered trademark of Hutchison Whampoa Enterprises Limited.

†: CitySearch is a registered trade mark of CitySearch Australia Pty Ltd.

‡: FOXTEL is a registered trademark of Twentieth Century Fox Film Corporation.

‡: FOXTEL Digital is a trade mark of Twentieth Century Fox Film Corporation.

‡: FOXTEL Box Office is a registered trade mark of Twentieth Century Fox Film Corporation.

‡: FOXTEL iQ is a trade mark of Twentieth Century Fox Film Corporation.

˜: Iridium is a registered trade mark of Iridium Satellite LLC.

All amounts are expressed in Australian dollars (A$) unless otherwise stated.

Full year results and operations review - June 2006

Table of Contents

for the year ended 30 June 2006

	Page Number
Summary Financial Information	
Results of Operations	4
Cash Flow Summary	5
Balance Sheet Summary	6
Segment Information	7
Statistical Data Summary	8
Analysis information	
Operating Revenues	9
PSTN Products	11
Mobiles	15
Internet and IP Solutions	18
ISDN	20
Specialised Data	21
Advertising and Directories	22
Intercarrier Services	23
Inbound Calling Products	24
Solutions Management	25
Offshore Controlled Entities	26
Payphones	27
Pay TV Bundling	27
Customer Premises Equipment	28
Other Sales and Services	28
Other Income	29
Operating Expenses	30
Labour Expense	31
Goods and Services Purchased	33
Other Expenses	35
Share of net gain/loss of jointly controlled entities and associated entities	37
Depreciation and Amortisation	37
Net Finance Costs	38
Income Tax Expense	38
Major Subsidiaries - Financial Summaries	39
Sensis Financial Summary	39
CSL New World Mobility Group Financial Summary	40
TelstraClear Financial Summary	41
REACH	42
Cash flow	43
Net cash provided by operating activities	43
Net cash used in investing activities	44
Balance sheet	47

Full year results and operations review - June 2006

Summary financial information

Results of Operations

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Sales revenue	**22,750**	22,161	589	**2.7%**
Other revenue (excl. finance income)	**22**	20	2	**10.0%**
Total revenue	**22,772**	22,181	591	**2.7%**
Other income	**328**	261	67	**25.7%**
Total income (excl. finance income)	**23,100**	22,442	658	**2.9%**
Operating expenses (excl. interest expense and depreciation and amortisation)	**13,521**	11,884	1,637	**13.8%**
Share of net (gain)/loss from jointly controlled and associated entities	**(5)**	94	(99)	**(105.3%)**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,584**	10,464	(880)	**(8.4%)**
Depreciation & amortisation	**4,087**	3,529	558	**15.8%**
Earnings before interest & income tax expense (EBIT)	**5,497**	6,935	(1,438)	**(20.7%)**
Net finance costs	**936**	880	56	**6.4%**
Profit before income tax expense	**4,561**	6,055	(1,494)	**(24.7%)**
Income tax expense	**1,380**	1,746	(366)	**(21.0%)**
Net profit for the year	**3,181**	4,309	(1,128)	**(26.2%)**
Effective tax rate	**30.3%**	28.8%		**1.5%**
EBITDA margin on sales revenue	**42.1%**	47.2%		**(5.1%)**
EBIT margin on sales revenue	**24.2%**	31.3%		**(7.1%)**
	cents	cents	Change cents	**% change**
Basic earnings per share (i)	**25.7**	34.7	(9.0)	**(25.9%)**
Diluted earnings per share (i)	**25.7**	34.6	(8.9)	**(25.7%)**
Dividends paid or declared:				
Interim dividend paid	**14.0**	14.0		
Special dividend paid with interim dividend	**6.0**	6.0		
Final dividend declared (2005 paid)	**14.0**	14.0		
Special dividend to be paid with final dividend (2005 paid)	**-**	6.0		

(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.

Full year results and operations review - June 2006

Cash Flow Summary

	Year Ended 30 June			
	2006	2005	Change	**2006/2005**
	$m	$m	$m	(% change)
Receipts from customers (inclusive of GST)	**25,229**	24,526	703	**2.9%**
Payments to suppliers/employees (inclusive of GST)	**(14,785)**	(13,848)	(937)	**6.8%**
Net cash generated by operations	**10,444**	10,678	(234)	**(2.2%)**
Income tax paid	**(1,882)**	(1,718)	(164)	**9.5%**
Net cash generated by operations (i)	**8,562**	8,960	(398)	**(4.4%)**
Payments for property, plant and equipment	**(3,636)**	(2,995)	(641)	**21.4%**
Payments for intangibles	**(619)**	(544)	(75)	**13.8%**
Capital expenditure before investments	**(4,255)**	(3,539)	(716)	**20.2%**
Investment expenditure	**(48)**	(590)	542	**(91.9%)**
Capital expenditure	**(4,303)**	(4,129)	(174)	**4.2%**
Repayment of loans to jointly controlled entities and associated entities	**-**	(37)	37	**-**
Receipts from asset sales/other proceeds/dividends	**225**	322	(97)	**(30.1%)**
Interest received	**66**	78	(12)	**(15.4%)**
Net cash used in investing activities (i)	**(4,012)**	(3,766)	(246)	**6.5%**
Operating cash flows less investing cash flows (i)	**4,550**	5,194	(644)	**(12.4%)**
Movements in borrowings/finance leases	**493**	1,393	(900)	**(64.6%)**
Employee share loans	**24**	19	5	**26.3%**
Dividends paid	**(4,970)**	(4,124)	(846)	**20.5%**
Share buy-back	**-**	(756)	756	**-**
Finance costs paid	**(940)**	(879)	(61)	**6.9%**
Purchase of shares for employee share plans	**(6)**	-	(6)	**-**
Net cash used in financing activities (i)	**(5,399)**	(4,347)	(1,052)	**24.2%**
Net cash flow	**(849)**	847	(1,696)	**(200.2%)**

(i) Please note: Due to the implementation of A-IFRS, we have revised the presentation of the cash flow summary and our statutory reported statement of cash flows. This has resulted in some reclassifications between our key cash flow totals (net cash provided by operating activities, net cash used in investing activities and net cash used in financing activities). Consequently, the 2005 comparative totals disclosed for these lines have changed from the amounts disclosed as at 30 June 2005. The most significant change is the reclassification of our finance costs paid from operating into financing, and the reclassification of interest received from operating into investing.

Full year results and operations review - June 2006

Balance Sheet Summary

	Year Ended 30 June			
	2006	2005	Change	**2006/2005**
	$m	$m	$m	(% change)
Current assets	**4,879**	5,582	(703)	**(12.6%)**
Intangibles	**6,123**	6,329	(206)	**(3.3%)**
Property, plant and equipment	**23,622**	22,891	731	**3.2%**
Total non-current assets	**31,296**	29,629	1,667	**5.6%**
Total liabilities	**(23,343)**	(21,553)	(1,790)	**8.3%**
Net assets/shareholders' equity	**12,832**	13,658	(826)	**(6.0%)**
Gross debt (i)	**(13,746)**	(13,319)	(427)	**3.2%**
Net debt (i)	**(13,057)**	(11,772)	(1,285)	**10.9%**
Ratios				
EBITDA Interest Cover (times)	**10.2**	11.9	(1.7)	**(14.3%)**
Net Debt to EBITDA	**1.4**	1.1	0.3	**27.3%**
Return on average assets	**15.8%**	20.6%		**(4.8%)**
Return on average equity	**24.2%**	30.6%		**(6.4%)**
Return on average investment	**21.4%**	27.2%		**(5.8%)**
Net debt to capitalisation	**50.4%**	45.9%		**4.5%**

(i) The Net Debt and Gross Debt balances as at 30 June 2005 do not reflect the impact of the relevant A-IFRS standard for financial instruments as this standard was only adopted as at 1 July 2005. Had it been adopted for 30 June 2005, Gross Debt would have been $13,208 million and Net Debt would have been $11,660 million.

Full year results and operations review - June 2006

Segment Information

Segment information

	Segment revenue Year Ended 30 June			Segment EBIT Year Ended 30 June		
	2006 $m	2005 $m	2006/2005 (% change)	**2006 $m**	2005 $m	2006/2005 (% change)
Telstra Consumer, Marketing and Channels	**8,897**	8,931	**(0.4%)**	**5,721**	6,248	**(8.4%)**
Telstra Business	**3,053**	3,099	**(1.5%)**	**2,412**	2,488	**(3.1%)**
Telstra Enterprise and Government	**4,664**	4,622	**0.9%**	**2,706**	2,812	**(3.8%)**
Telstra Wholesale	**2,899**	2,551	**13.6%**	**2,693**	2,283	**18.0%**
Sensis	**1,836**	1,719	**6.8%**	**864**	812	**6.4%**
Telstra International	**1,481**	1,398	**5.9%**	**156**	11	**n/m**
Telstra Operations	**309**	238	**29.8%**	**(4,175)**	(3,371)	**23.9%**
Other (i)	**113**	87	**29.9%**	**(4,909)**	(4,351)	**12.8%**
Eliminations	**(480)**	(464)	**3.4%**	**29**	3	**n/m**
Total Telstra (ii)	**22,772**	22,181	**2.7%**	**5,497**	6,935	**(20.7%)**

n/m - not meaningful

(i) Revenue for the other segment relates primarily to our revenue earned by Telstra Media for our share of FOXTEL cable subscriber revenue and for services provided to FOXTEL. The Asset Accounting Group is the main contributor to the segment EBIT for this segment, which is primarily depreciation and amortisation charges.

(ii) The allocations noted above reflect management's accountability framework and internal reporting system and accordingly no reasonable basis for reallocation to the respective business segments exists. As a consequence, there are several things that should be noted about the information above:

- *Because no reasonable basis for allocation exists, sales revenue associated with mobile handsets for the Consumer, Business and Enterprise and Government segments are allocated totally to the Consumer segment, with the exception of some products sold in relation to small to medium enterprises which are allocated to the Business 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 the Consumer segment.*
- *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 recognises 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.*

Full year results and operations review - June 2006

Statistical Data Summary

	Year Ended 30 June			
	2006	2005	Change	% change
Billable traffic data (in millions)				
Local calls (number of calls)	7,432	8,469	(1,037)	(12.2%)
National long distance minutes (i)	7,215	7,743	(528)	(6.8%)
Fixed to mobile minutes	4,491	4,375	116	2.7%
International direct minutes	534	580	(46)	(7.9%)
Mobile voice telephone minutes (ii)	7,311	6,746	565	8.4%
Inbound Calling Products - B Party Minutes	2,922	2,773	149	5.4%
Inbound Calling Products - A Party Calls	1,012	940	72	7.7%
Number of short messaging service (SMS) sent	3,019	2,289	730	31.9%
Network and operations data (in millions)				
Basic access lines in service (iii)				
Residential	5.46	5.60	(0.14)	(2.5%)
Business	2.32	2.45	(0.13)	(5.3%)
Total retail customers	7.78	8.05	(0.27)	(3.4%)
Domestic wholesale	2.16	2.07	0.09	4.3%
Total basic access lines in services	9.94	10.12	(0.18)	(1.8%)
ISDN access (basic lines equivalents) (in thousands) (iv)	1,214	1,208	6	0.5%
Mobile services in operation (SIO) (in thousands) (v)				
3G	317	-	317	-
GSM	6,468	6,894	(426)	(6.2%)
CDMA	1,703	1,333	370	27.8%
Mobile services in operation	8,488	8,227	261	3.2%
Total Wholesale mobile SIOs (in thousands)	119	83	36	43.4%
Online subscribers (in thousands)				
Narrowband subscribers	1,027	1,205	(178)	(14.8%)
Broadband subscribers - Retail	1,476	856	620	72.4%
Broadband subscribers - Wholesale (vi)	1,427	888	539	60.7%
Total Broadband subscribers	2,903	1,744	1,159	66.5%
Total online subscribers	3,930	2,949	981	33.3%
Total FOXTEL subscribers (in thousands)	1,130	1,023	107	10.5%
Employee data				
Domestic full time staff (vii)	37,599	39,680	(2,081)	(5.2%)
Full time staff and equivalents (viii)	44,452	46,227	(1,775)	(3.8%)
Total workforce (ix)	49,443	52,705	(3,262)	(6.2%)

(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 ISDN and virtual private networks.
(ii) Includes all calls made from mobile telephones including long distance and international calls, excludes data, messagebank, international roaming and CSL New World.
(iii) Excludes Incontact services (a free service with restrictive calling access) and advanced access services, such as ISDN services.
(iv) Expressed in equivalent number of clear voice channels. Comparatives have been restated to reflect updated assessment of channels per SIO on ISDN 10/20/30.
The previous assessment was based on a calculation of channel configurations across sample services. The revised assessment is based on the entire customer base.
(v) Excludes CSL New World SIOs.
(vi) Within Broadband, retail products include cable, satellite, BigPond Wireless, HyperConnect, ADSL and Symmetrical HDSL, while wholesale products include DSL Layer 1, DSL Layer 2, DSL layer 3, Spectrum Sharing and vISP Broadband. Total Broadband subscribers exclude Broadband component of ULL and Mobile Broadband which form part of intercarrier services and mobiles revenue respectively.
(vii Excludes offshore, casual and part time employees. June 2005 has been restated, refer to Labour section for further information.
(viii) Includes all domestic and offshore employees, including controlled entities. June 2005 has been restated, refer to Labour section for further information.
(ix) Includes all domestic and offshore employees, including controlled entities, as well as contractors and agency staff. June 2005 has been restated, refer to Labour section for further information.

Full year results and operations review - June 2006

Operating Revenues

Operating Revenues

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	2006/2005 (% change)
PSTN Products				
Basic access	3,318	3,362	(44)	(1.3%)
Local calls	1,023	1,284	(261)	(20.3%)
PSTN value added services	246	250	(4)	(1.6%)
National long distance calls	913	1,013	(100)	(9.9%)
Fixed to mobile	1,491	1,566	(75)	(4.8%)
International direct	201	234	(33)	(14.1%)
Fixed interconnection	286	309	(23)	(7.4%)
Total PSTN	7,478	8,018	(540)	(6.7%)
Mobiles				
Mobile services - Retail	3,846	3,736	110	2.9%
Mobile services - Wholesale	36	24	12	50.0%
Mobile services - Interconnection	623	547	76	13.9%
Mobile handsets	467	381	86	22.6%
Total Mobiles	4,972	4,688	284	6.1%
Internet and IP solutions				
Narrowband	220	275	(55)	(20.0%)
Retail broadband	730	463	267	57.7%
Wholesale broadband	461	261	200	76.6%
Internet direct	143	123	20	16.3%
IP solutions	285	207	78	37.7%
Other	68	48	20	41.7%
Total Internet and IP solutions	1,907	1,377	530	38.5%
ISDN products	807	890	(83)	(9.3%)
Specialised data	884	966	(82)	(8.5%)
Advertising and Directories	1,711	1,585	126	7.9%
Intercarrier services	351	290	61	21.0%
Inbound calling products	449	449	-	0.0%
Solutions management	989	931	58	6.2%
HKCSL New World	830	734	96	13.1%
TelstraClear	620	625	(5)	(0.8%)
Offshore services revenue	295	252	43	17.1%
Payphones	104	121	(17)	(14.0%)
Pay TV bundling	320	263	57	21.7%
Customer premises equipment	274	231	43	18.6%
Other sales & service	759	741	18	2.4%
Sales revenue	22,750	22,161	589	2.7%
Other revenue	22	20	2	10.0%
Total revenue	22,772	22,181	591	2.7%
Other income	328	261	67	25.7%
Total income	23,100	22,442	658	2.9%

Full year results and operations review - June 2006

In the following discussion, we analyse revenue for each of our major products and services. The principal areas of operating revenue growth for fiscal 2006 were:

- mobiles;
- internet and IP solutions;
- advertising and directories; and
- Pay TV bundling.

In fiscal 2006, our sales revenue growth was partially offset by a 6.7% decline in PSTN product revenues as customers continue to move towards new products and services to satisfy their requirements and competition intensifies in the market.

Competition has continued to intensify and as a result, we have seen our revenues decline in some areas despite increasing volumes. We have also seen a continued shift in revenue from our traditional higher margin retail operations (such as our PSTN products) to our lower margin retail products (such as mobiles and broadband). We have continued to concentrate on product bundling initiatives and managing the migration of customers to other products. In the second half of fiscal 2006, we introduced our first subscription price based offers into the Consumer market to help address the decline of our traditional product revenues and to make pricing simple for our customers. We have also introduced market based management to enable us to better serve our customers' needs as we understand them better.

We expect that there will be continued competitive pressure in some of our traditional product areas. However, the volume of telecommunications services purchased in Australia has increased and the range of products and services offered continues to expand. Based on the overall growth anticipated in the volume of telecommunication services, we expect our operating revenue to continue to grow.

Full year results and operations review - June 2006

PSTN Products

PSTN Products

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Basic access revenue				
Retail	**2,592**	2,725	(133)	**(4.9%)**
Domestic wholesale	**726**	637	89	**14.0%**
Total basic access revenue	**3,318**	3,362	(44)	**(1.3%)**
Local call revenue	**1,023**	1,284	(261)	**(20.3%)**
PSTN value added services revenue	**246**	250	(4)	**(1.6%)**
National long distance call revenue	**913**	1,013	(100)	**(9.9%)**
Fixed to mobile revenue	**1,491**	1,566	(75)	**(4.8%)**
International direct revenue	**201**	234	(33)	**(14.1%)**
Fixed interconnection	**286**	309	(23)	**(7.4%)**
Total PSTN revenue	**7,478**	8,018	(540)	**(6.7%)**
Basic access lines in service (in millions)				
Residential	**5.46**	5.60	(0.14)	**(2.5%)**
Business	**2.32**	2.45	(0.13)	**(5.3%)**
Total Retail	**7.78**	8.05	(0.27)	**(3.4%)**
Domestic wholesale	**2.16**	2.07	0.09	**4.3%**
Total access lines in service	**9.94**	10.12	(0.18)	**(1.8%)**
Number of local calls (in millions)	**7,432**	8,469	(1,037)	**(12.2%)**
National long distance minutes (in millions) (i)	**7,215**	7,743	(528)	**(6.8%)**
Fixed to mobile minutes (in millions)	**4,491**	4,375	116	**2.7%**
International direct minutes (in millions)	**534**	580	(46)	**(7.9%)**

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 ISDN and virtual private networks.

Total PSTN products revenue is $7,478 million, which declined by 6.7% or $540 million during fiscal 2006. This compares with a decline of 3.6% in fiscal 2005 (inclusive of fixed interconnection).

There has been a general reduction in PSTN volumes, with a decline in retail basic access lines, and volume reductions across local calls, national long distance calls, international direct calls and fixed interconnection. Yields have also declined in local calls, national long distance, fixed to mobile, international direct and fixed interconnection due to competitive pricing pressure.

During the second half of the year, 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. These plans are yet to show any significant impact on our PSTN revenues.

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:

- housing growth;

- competition;
- demand for telephone services and additional lines;
- regulatory constraints in relation to wholesale basic access;
- migration to other products such as broadband and mobiles; 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 operating revenue from basic access services was also affected by competition during fiscal 2006. During fiscal 2006, the number of retail residential and business basic access lines decreased due to strong competition and migration to alternative products such as broadband and mobiles. Domestic wholesale basic access lines in service grew, reflecting the increased penetration of our competitors into the retail basic access market. In the retail segment, we saw a decline of 270,000 lines in service or 3.4%, mainly driven by the migration to other technologies which is underpinning the retail trend across PSTN revenues. This decline was partially offset by an increase of 90,000 lines in service or 4.3% in the wholesale market.

Overall our operating revenue from basic access services decreased. During fiscal 2006, we introduced various basic access packages, which reduced the decline in yield in this area, despite an overall decrease in basic access lines in service.

Rental revenue increased 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. In addition, penetration of higher value HomeLine plans including HomeLine Ultimate, a new subscription based plan introduced in April 2006, is also expected to contribute positively. Partly offsetting this was an increase in the discounts to Whole of Business customers and pensioners.

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:

- the number of basic access lines in service and customers moving from our basic access service to our other access services, such as mobiles and broadband;
- competition;
- increasing use of email;
- customers migrating to mobile and fixed to mobile calling; and
- pricing changes.

Local call revenue decreased by $261 million or 20.3% in fiscal 2006, 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 currently being heavily promoted by competitors. Substitution of data local calls continues to occur due to the migration of dial up internet customers to broadband. The price in the wholesale market also declined as a result of a rise in volume discounts.

Generally, call volumes have continued to fall during fiscal 2006, reflecting the impact of customers migrating to other products, such as mobiles, fixed to mobile, and broadband products. This is highlighted by the fact that the number of local calls reduced by 12.2% during the year.

Work continues on the integration of mobile, fixed and broadband services to add value to the fixed line. This is aimed at arresting the decline in fixed line use.

PSTN value added services

Our revenue from PSTN value added services declined by $4 million or 1.6% during fiscal 2006. This decrease was driven by a reduction in a number of mature products, such as Indial, Siteline, Enhanced faxstream and other access products nearing the end of their lifecycle. Customers are also migrating to product offerings such as internet products and premium voice communication applications.

Messaging and call completion products increased marginally during fiscal 2006. Calling number display continued to grow due to attractive packaging discounts resulting in subscriber numbers increasing by 10%. This has been partially offset by call return revenue which declined by 14% due to lower overall call volumes and substitution to other products.

National long distance calls

Our operating revenue from national long distance consists of revenue from national long distance calls made from our PSTN network to the 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. 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. The majority of our operating revenue from national long distance calls comes from our residential and small business customers.

General economic conditions and customer perceptions about the cost and value of our service relative to competitor alternatives, 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 $100 million or 9.9% in fiscal 2006 compared with fiscal 2005. 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. Volumes are down as a result of lower basic access services in operation and the impact of fixed to mobile substitution and other calling options available to customers. We have increased discounts compared to fiscal 2005 in order to retain and win back customers.

We continue to respond to competition with competitively priced packages. 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, and by the continued growth of subscription pricing plans. Work continues on the integration of mobile, fixed and broadband services to add value to the fixed line. This is aimed at arresting the decline in fixed line use.

Full year results and operations review - June 2006

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 and mobile carrier, however packages are also offered on a capped price basis. Our operating revenue for fixed to mobile calls is approximately split evenly between business and residential customers. 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. 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.

During fiscal 2006, fixed to mobile revenue declined by $75 million or 4.8%. We experienced a decline of $114 million due to lower yields resulting from higher discounts arising from ongoing competitive pressure, including incorporating fixed to mobile calls in reward offerings and the changing mix in (Services In Operation) SIOs from PSTN to ISDN and CustomNet. 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.

This decline in revenue was partially offset by growth in call volumes mainly due to the continued expansion of mobile services in the Australian market. The positive volume growth for fiscal 2006 contributed $38 million due to higher calls and minutes of use. This growth is 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.

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 general economic conditions, customer perceptions about the cost and value of our service, competition, migration to broadband alternatives and promotion and advertising.

Our international direct revenue declined by 14.1% to $201 million in fiscal 2006 primarily as a result of lower volumes and continued competitive pressure on price. Factors which have influenced this trend include the competitive pressures from calling cards, fixed to mobile substitution and the growth of Voice over IP in the market place. Despite major international events and the occurrence of unfortunate circumstances which have provided short term stimulus to call traffic, international direct minutes declined 7.9% for the year.

Fixed Interconnection

Fixed interconnection is made up of local and non local PSTN/ISDN access interconnection services provided to other carriers. This category is a highly regulated area of the Australian telecommunication market.

Our operating revenue from fixed interconnection decreased by 7.4% to $286 million during fiscal 2006 driven by reduction in both volume and price. Volume declines are in line with cross company trends in PSTN traffic and have been particularly impacted by migration to mobiles and, to a smaller degree, ULL (unconditioned local loop) build. The decline due to price arose from lower charges consistent with our undertakings lodged with the ACCC for PSTN.

Full year results and operations review - June 2006

Mobiles

Our operating revenue from mobiles consists of revenue from access fees and call charges, as well as value added services comprising international roaming, mobile MessageBank® and mobile data. It also includes revenue from the sale of mobile handsets and interconnection charges where calls from other carriers' customers terminate on our network.

During fiscal 2006, we commenced the construction of a new 3GSM 850 network that will operate in the 850 megahertz spectrum. Until recently, we operated only two primary mobile networks, GSM and CDMA. Over time we will migrate our customers from our old networks onto our new 3G network. The new network is intended to reduce our level of network costs and complexity and enable us to provide our customers with faster speeds, better coverage and enable them to access a far greater range of services and content than our older network. We continue to offer 3G services to our customers over our existing 3G 2100 network through our joint venture with Hutchison Telecommunication (Australia) Limited (Hutchison).

The mobile telecommunications market has continued to grow during fiscal 2006, although at a lower rate of growth than in the prior year. The growth was driven by the increase in capped price plans, heightened campaign activity particularly around 3G services, and the increasing use of mobile data services such as Blackberry and 1xRTT. While voice continues to be the largest contributor to mobiles revenue, value added services (inclusive of mobile data) is the fastest growing, now representing 25.4% of mobile services revenue in fiscal 2006. With competition intensifying, we have introduced a comprehensive and broad reaching program of segment based customer management to enable us to provide the best service and solutions to all of our customers.

Mobiles

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Access fees and call charges	**2,703**	2,765	(62)	**(2.2%)**
Value added services:				
- International roaming	**266**	243	23	**9.5%**
- Mobile messagebank	**199**	187	12	**6.4%**
- Short message service (SMS)	**494**	457	37	**8.1%**
- Other mobile data	**184**	84	100	**119.0%**
Total value added services	**1,143**	971	172	**17.7%**
Total Mobile services revenue - retail	**3,846**	3,736	110	**2.9%**
Mobile services revenue - wholesale	**36**	24	12	**50.0%**
Mobile services revenue - mobiles interconnection	**623**	547	76	**13.9%**
Total mobile services revenue	**4,505**	4,307	198	**4.6%**
Mobile handset sales	**467**	381	86	**22.6%**
Total mobile goods and services revenue (i)	**4,972**	4,688	284	**6.1%**
3G mobile SIO (thousands)	**317**	-	317	**-**
GSM mobile SIO (thousands)	**6,468**	6,894	(426)	**(6.2%)**
CDMA mobile SIO (thousands)	**1,703**	1,333	370	**27.8%**
Total mobile SIO (thousands)	**8,488**	8,227	261	**3.2%**
Mobile Wireless - EVDO SIO (thousands) (included in CDMA SIO above)	**60**	19	41	**215.8%**
Prepaid mobile SIO (thousands)	**3,597**	3,570	27	**0.8%**
Postpaid mobile SIO (thousands)	**4,891**	4,657	234	**5.0%**
Total mobile SIO (thousands)	**8,488**	8,227	261	**3.2%**

Full year results and operations review - June 2006

Mobiles

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
CDMA wholesale mobile SIO (thousands)	**73**	62	11	**17.7%**
GSM wholesale mobile SIO (thousands)	**46**	21	25	**119.0%**
Total wholesale mobile SIO (thousands)	**119**	83	36	**43.4%**
Number of SMS sent (in millions)	**3,019**	2,289	730	**31.9%**
Deactivation rate	**23.4%**	19.2%	4.2%	**4.2%**
Mobile voice telephone minutes (in millions) (ii)	**7,311**	6,746	564	**8.4%**
Average revenue per user per month $'s (iii)	**38.35**	39.33	(0.98)	**(2.5%)**
Average prepaid revenue per user per month $'s (iii)	**10.85**	12.24	(1.39)	**(11.4%)**
Average postpaid revenue per user per month $'s (iii)	**58.99**	59.06	(0.07)	**(0.1%)**
Average mobile data revenue per user per month (iv)	**6.77**	5.70	1.07	**18.8%**

Note: statistical data represents management's best estimates.

(i) Excludes revenue from:
- calls from our fixed network which we categorise as fixed to mobile; and
- CSL New World which is recognised separately as controlled entity revenue.
(ii) Includes all calls made from mobile telephones including long distance and international calls, excludes data, messagebank, international roaming and CSL New World.
(iii) Average retail revenue per user per month is calculated using average retail SIO and includes mobile data, messagebank and roaming revenues.
It excludes interconnection and wholesale revenue.
(iv) Includes mobile wireless EVDO revenue, excludes BigPond wireless.

During fiscal 2006, mobile service revenue increased mainly due to the continued growth in the number of mobile telephone subscribers and expanding minutes of use, offset by continued pressure on prices. In addition, we experienced strong growth in our value added services revenue for example messagebank, SMS, Blackberry and 1xRTT.

Access fees and call charges declined by 2.2% to $2,703 million in fiscal 2006 reflecting a decrease in GSM revenues partially offset by an increase in CDMA revenues. Both technology categories have been impacted during the year by the competitive environment and the growth in capped price plans which has directly impacted yields. CDMA prepaid was also impacted by lower revenues attributable to a promotion which gave CDMA subscribers half price calls for a year. During the year we moved from 1% of our mobile customers on capped plans to 4.3% on capped plans.

SIOs increased overall, but it was CDMA that drove the growth with a 27.8% increase whilst GSM (including 3G) reduced marginally by 1.6%. The CDMA revenues benefited from an increased emphasis on activations and the availability of more competitively priced handsets. Call minutes generally increased for each technology, but these benefits did not outweigh the impact on price for the period. Average revenue per user (ARPU) dropped by 98 cents over the year led by a reduction in prepaid ARPU by 11.4% or $1.39, with postpaid ARPUs stable.

Full year results and operations review - June 2006

Revenue from international roaming grew by 9.5% to $266 million in fiscal 2006. The rise was primarily due to an increase in outbound roaming minutes and a marginal increase in revenue per call. In addition, inbound roaming revenue remained steady as price increases were equally offset by decreased usage.

Revenue from MessageBank® increased by 6.4% to $199 million in fiscal 2006 primarily due to growth in minutes resulting from higher mobile usage and SIOs.

SMS and Multimedia Messaging Services (MMS) revenues increased by 8.1% to $494 million after a significant increase in the number of messages sent. There is a component of migration from voice communication to message communication which is evident in the reported growth rates. This has been stimulated by a 1 cent text offer and other rewards and bonus options offered during the year. In addition, mobile data growth was also experienced in the corporate segment through the Blackberry and Telstra Mobile Broadband™ products on the CDMA network. This is reflected in the average mobile data revenue per user per month increasing over fiscal 2006.

Revenue from handset sales increased by 22.6% to $467 million in fiscal 2006 primarily due to growth in the number of GSM mobile handsets sold. This growth is attributed to an increase in marketing campaign activity focusing on the sale of 3G handsets, particularly in the second half of the year.

Mobiles interconnection revenue has grown 13.9% to $623 million. The main product driving this is GSM wholesale domestic roaming which grew in fiscal 2006 by $43 million after Hutchison 3G roaming commencing in April 2005. This corresponds directly to an $8 million drop in CDMA roaming after Hutchison introduced their 3G product as an alternative to CDMA. SMS interconnect has grown A$17 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. In addition, mobiles terminating revenue grew by $24 million due to a 12% increase in termination volumes, partially offset by price reductions resulting from regulatory pricing pressures on mobile terminating rates. The increase in termination volumes has resulted from growth in retail SIOs, particularly in CDMA and pre-paid services.

Wholesale mobile service revenue increased in fiscal 2006 by 50.0% or $12 million due to growth in the Wholesale GSM resale product introduced in fiscal 2005. It enabled resellers to develop and market their own branded mobile solutions including voice, text, multimedia messaging and Messagebank on the GSM network which they could only previously do on the CDMA network. Minutes of use have grown significantly since this product was introduced.

The deactivation rate has increased by 4.2% which is all driven by prepaid activity. After a system change in fiscal 2005 all relevant prepaid SIOs were automatically given a recharge period of 12 months, extended from the normal 6 month period. In the last quarter of fiscal 2006, these SIOs reached the end of this period and many were subsequently deactivated. This contributed to the deactivation of 1.1 million prepaid SIOs in fiscal 2006. This change in recharge period has not impacted the year on year growth rate but has impacted the timing of deactivations occurring throughout the year.

Full year results and operations review - June 2006

Internet and IP Solutions

Our operating revenue from IP and internet services is driven primarily by:

- demand for capacity to support business networking;
- the increased use of IP services by business customers (small to medium enterprises);
- the introduction of new products to meet customer needs;
- 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; and
- demand for greater bandwidth services such as broadband.

While the IP and internet markets have been experiencing growth, competition has put pressure on our prices. We expect that these trends will continue.

Internet & IP Solutions

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Narrowband	**220**	275	(55)	**(20.0%)**
Retail broadband	**730**	463	267	**57.7%**
Wholesale broadband	**461**	261	200	**76.6%**
Internet direct	**143**	123	20	**16.3%**
IP solutions	**285**	207	78	**37.7%**
Other	**68**	48	20	**41.7%**
Total internet & IP solutions revenue	**1,907**	1,377	530	**38.5%**
Broadband subscribers - retail (in thousands) (i)	**1,476**	856	620	**72.4%**
Broadband subscribers - wholesale (in thousands)	**1,427**	888	539	**60.7%**
Total Broadband subscribers (in thousands)	**2,903**	1,744	1,159	**66.5%**
Narrowband subscribers - retail (in thousands)	**1,027**	1,205	(178)	**(14.8%)**
Total online subscribers	**3,930**	2,949	981	**33.3%**
Average revenue per retail broadband subscriber per month ($'s)	**52.16**	60.10	(7.94)	**(13.3%)**

Note: statistical data represents management's best estimates.

(i) Telstra mobile broadband and Telstra internet direct (Retail ADSL) are not included in retail broadband revenue and subcriber numbers.

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. In fiscal 2006, continued demand for capacity combined with competitive pricing has 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.

We offer a range of internet products and packages under our BigPond brand. Telstra BigPond home and business packages offer dial-up modem services to residential and business customers across Australia.

Full year results and operations review - June 2006

Telstra BigPond broadband provides broadband internet services to consumer and business customers via HFC (Hybrid Fibre Coaxial) cable, ADSL, satellite and mobile access technologies.

During fiscal 2006, our internet and IP solutions revenue grew by 38.5% or $530 million to $1,907 million, despite a reduction in prices. The subscriber base for our broadband products grew significantly during this time, partially due to migration from narrowband products but also due to growth in the overall online market. As at 30 June 2006, we had approximately 2.9 million broadband customers, nearly 1.5 million retail customers. There has been a significant rise in demand resulting from competitive pricing strategies.

Narrowband revenue decreased to $220 million in fiscal 2006. This decline highlights the growing impact of dial-up to broadband migration as the dial-up market proceeds with its decline. We expect this trend to continue with further price adjustments likely to occur as broadband prices fall and customers require higher speeds.

Retail broadband revenue increased by 57.7% to $730 million in fiscal 2006, mainly due to strong increases in SIOs. SIO growth has occurred across all technologies but ADSL has been the key driver of the growth. We have introduced a number of key price and value campaigns to stimulate broadband take up including a combination of discounting access and installation offers. We have also introduced new products and plans including a wireless EVDO offer and enhanced focus on our cable offerings. The Australian Government's Higher Bandwidth Incentive Scheme (HiBIS) and broadband regional connect packages have also enabled affordable broadband and higher bandwidth to be provided to regional and remote locations and encourage take up in those areas. Given this strong take up, increased competition and resultant price offerings, average revenue per user has declined across the majority of products.

Wholesale broadband revenue increased by 76.6% to $461 million in fiscal 2006 driven by a continuing strong market demand for high bandwidth services. Wholesale DSL internet grade has grown by $181 million driven by volume increases with a 60.7% growth in SIOs.

Internet direct is our business oriented internet access product with a range of data access options and features to meet the needs of business. Internet direct revenue increased by 16.3% during fiscal 2006 to $143 million. The result was driven by our virtual ISP product which increased by $14 million, mainly because of a new commercial deal signed resulting in a significant increase in data usage. SIOs for this product category increased by 258% in fiscal 2006.

IP solutions revenue increased by 37.7% to $285 million in fiscal 2006, mainly due to the products in this category being in the growth phase of their lifecycle. Fiscal 2006 saw an increase of $48 million in IP MAN/ Ethernet, our 'next generation' data access services which provide high speed IP and Ethernet access solutions respectively for large and medium corporate enterprises. The government sector has been the key user and driver of this product. IP WAN grew by $29 million, after growth was stimulated through competitive pricing and improved network performance. It is also evident that customers now appear more willing to move towards IP based solutions.

Other internet and IP solutions revenue grew by $20 million due to growth in wholesale internet and data traffic, in particular in our Wholesale Ethernet product, and increased revenue from our wholly owned entity, Chief Entertainment which is a media production house that provides internet content.

Full year results and operations review - June 2006

ISDN

ISDN is a flexible, switched network based on digital technology. It can support many 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.

ISDN

	Year Ended 30 June			
	2006	2005	Change	**2006/2005**
	$m	$m	$m	(% change)
Access	**418**	421	(3)	**(0.7%)**
Data calls	**118**	165	(47)	**(28.5%)**
Voice calls	**271**	304	(33)	**(10.9%)**
Total calls	**389**	469	(80)	**(17.1%)**
Total ISDN revenue	**807**	890	(83)	**(9.3%)**
ISDN access lines (basic access line equivalents) (in thousands) (i)	**1,214**	1,208	6	**0.5%**

Note: statistical data represents management's best estimates.

(i) *Statistical data- we have adjusted comparative data to show a more accurate reflection of the market. Conversion factors have been adjusted in calculating ISDN access lines.*

ISDN access revenue has declined marginally to $418 million in fiscal 2006. Growth in access lines has slowed in recent years from 3.3% in fiscal 2005 to 0.5% in the current year. Data access line declines in the consumer segment have been driven by customer movement to broadband, whilst declines in the business segment have arisen as a result of the migration to alternative technologies such as ADSL, symmetrical HDSL. Data access line declines have been offset by voice access line growth, driven by customers taking up ISDN as a stepping stone towards a full IP environment. Whole of customer discounts in the enterprise segment have also impacted the result in the current year.

ISDN voice calls revenue, which is made up of local, national and international voice calls made on the integrated services digital network, declined by 10.9% or $33 million in fiscal 2006, mainly due to declines in the local and national categories. National voice calls revenue was negatively impacted by competitor price pressure during the year. Local voice calls revenue was negatively impacted by a decrease of 14% in minutes of use primarily because calls on our Priority® One3 and 1300 A Party products have been reclassified from ISDN to inbound calling revenues. This reclassification amounted to $13 million in fiscal 2006.

ISDN data calls revenue declined in fiscal 2006 by 28.5% or $47 million. Both ISDN local and national data calls contributed to the decline. ISDN local data and ISDN national local data calls revenue declined by 28% and 32% respectively due to customers migrating to alternative products such as ADSL and symmetrical HDSL, as a result of improved bandwidths at reduced prices in each of these products.

Full year results and operations review - June 2006

Specialised Data

Specialised data

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Frame Relay	**305**	351	(46)	**(13.1%)**
ATM	**90**	89	1	**1.1%**
Digital data services	**198**	227	(29)	**(12.8%)**
Leased lines	**229**	235	(6)	**(2.6%)**
International private lines	**30**	26	4	**15.4%**
Other specialised data	**32**	38	(6)	**(15.8%)**
Total data revenue	**884**	966	(82)	**(8.5%)**
Domestic Frame access ports (in thousands)	**30**	34	(4)	**(11.8%)**

Note: statistical data represents management's best estimates.

Specialised data revenue is comprised mainly of revenue from frame relay, digital data services and leased lines. Frame relay offers high speed data transmission from 64kb to 45Mb per second to customers connecting any number of sites to other national or international locations. It is frequently used as a building block to construct corporate wide area networks. Digital data services provide high quality, leased line digital data transmission offering dedicated bandwidth from 1.02Kb to 1,984Kb per second, which may be used for communication between all major capital cities, and most regional and country areas in Australia. Analogue leased lines provide high quality, low cost, low bandwidth and dedicated end-to-end connections between customer sites.

During fiscal 2006, total specialised data revenue decreased to $884 million, reflecting a decline in mature products such as frame relay, digital data and leased line services. This decline has been driven by product substitution to more technologically advanced IP and DSL based product options, included with our internet and IP solutions revenue category.

Frame relay revenue decreased as this product enters the declining stages of its product life cycle with customers migrating to new technologies such as Business DSL which offers the same coverage and similar assurance, but at a lower price. In addition, we introduced price discounting to retain existing customers. Reduced frame relay revenue was due to a combination of a reduction in ports by 11.8% with an equivalent reduction in revenue per customer.

Digital data services are mature products that declined 12.8% to $198 million during fiscal 2006 primarily due to customers transferring to newer technologies and price pressures experienced from alternative products.

Leased line revenues have experienced a 2.6% reduction to $229 million, mainly due to customers with voice graded dedicated lines moving to DSL, wireless or IP telephony based solutions. Other high capacity products such as wideband have grown. New business has also been generated by offering premium packages in combination with Internet Direct but they tend to be short distance services which are low revenue generating.

Full year results and operations review - June 2006

Advertising and Directories

Our advertising and directories revenue is predominantly derived from our wholly owned Sensis group. Sensis provides innovative advertising and local search solutions through a print, online, voice, wireless and satellite navigation network.

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

Product innovation and customer demand continue to drive growth in our broader online and electronic advertising and non-directories advertising business.

Advertising and Directories

	Year Ended 30 June			
	2006	2005	Change	**2006/2005**
	$m	$m	$m	(% change)
Advertising and Directories revenue	**1,711**	1,585	126	**7.9%**

Yellow Pages revenue increased by 5.8% to $1,172 million, primarily due to the strong performance in our non-metropolitan books and 54% growth in Yellow Pages® OnLine revenue. The growth in non-metropolitan books has been driven by new category guides and subheadings, higher uptake of half page advertisements and the release of three new local directories. Online performance was driven by a 25% rise in Yellow Pages OnLine display customer numbers and higher uptake of Platinum advertising, leading to increased yields.

During fiscal 2006, White Pages® revenue grew by 12.2% to $302 million, reflecting continued growth in both print and online, with improved sales force effectiveness through better "go to market" strategies. Growth has continued with the success of coloured listings and logos resulting in higher revenue per customer.

Our emerging businesses delivered 17.1% revenue growth, driven by strong growth in Whereis® location-based search revenues and in MediaSmart®. Fiscal 2006 includes a full year of revenue for our mapping and travel related products company Universal Publishers.

We also acquired QuickCut and Adstream in February 2006. This business provides a unique software and online interface which allows advertising content to be stored, repurposed and distributed across a wide range of media. This business contributed a further $8 million for the year.

Overall revenue performance was impacted by a decline in Classifieds revenue over the period. This was driven by competition and economic weakness in the Sydney and Melbourne markets.

Full year results and operations review - June 2006

Intercarrier Services

Our operating revenue from intercarrier services comprises a number of products and services relating to the provision of telecommunications services to other carriers (including REACH), CSPs and Internet service providers (ISPs). The majority of this revenue base is derived from interconnect and access services which is a highly regulated area of the Australian telecommunications market. Interconnection revenues relating to our PSTN and mobile products are included in those product categories. The remaining revenue component in intercarrier services is derived from wholesale specific product offerings such as facilities access, wholesale transmission and ULL which, while they are subject to significant price pressures resulting from ongoing oversupply of capacity in the market place, are a focus for delivering incremental revenue growth for us in the coming years.

Intercarrier services

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Intercarrier services revenue	**351**	290	61	**21.0%**

Intercarrier Services revenue has grown by 21.0% to $351 million due to increases in facilities access, wholesale transmission solutions and other wholesale revenues mainly consisting of ULL.

Our growth in facilities access was 40.7% or $24 million for the year largely driven by demand for equipment building and mobile tower access as other carriers and service providers have sought to expand their infrastructure over time.

Growth in wholesale transmission relates to leased transmission services led by a rise in demand from internet service providers for backhaul transmission to expand their DSL network coverage. Partly offsetting the overall increase in intercarrier revenue was the unfavourable impact of a backdated rate adjustment for MCI Worldcom in September 2005 as well as a decline in services leased by the same customer.

Other Wholesale revenue growth of $18 million is due to ULL which has been driven by a number of factors such as:

- carriers have reached customer density thresholds on wholesale DSL and resale PSTN to be able to undertake viable ULL; and
- falling equipment prices have reduced the capital required by carriage service providers to undertake ULL build.

Full year results and operations review - June 2006

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 25 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.

Also included is revenue from enhanced call centre products using network voice processing, which provides access to advanced call handling capabilities, without customers having to purchase and maintain their own networks.

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.

Revenue from inbound calling products remained steady at $449 million in fiscal 2006 mainly due to an increase in Priority® One3 and 1300 A Party products offset by Priority® One3 and 1300 B Party products.

Inbound calling products

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Inbound calling products revenue	**449**	449	0	**0.0%**
B Party minutes (in millions)	**2,922**	2,773	149	**5.4%**
A Party calls (in millions)	**1,012**	940	72	**7.7%**
	3,934	3,713	221	**6.0%**

Note: statistical data represents management's best estimates.

Our overall revenue from Priority®One3 and 1300 B Party products declined in fiscal 2006 due to very competitive market pressures resulting in lower returns. Minutes of use and services in operation have actually increased in this category of calls, but large customers are being won or retained at lower prices resulting in reduced revenues. This is offset by higher call volumes on our Priority® One3 and 1300 A Party products after calls from our ISDN and Siteline products to these numbers were reclassified in the current year to inbound calling. This amounted to $13 million in fiscal 2006. There is also an increasing trend for calls to these numbers being made from mobile phones which resulted in the revenue being recorded as mobiles revenue.

Revenue from Freecall™ 1800 has declined mainly due to intense price competition leading to reduced price and a declining customer base. Our other inbound calling products, such as Enterprise speech solutions, have continued to grow strongly throughout fiscal 2006.

Full year results and operations review - June 2006

Solutions Management

Our operating revenue from solutions management 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 IP based networks and IP telephony, CPE management, radio networks and new wireless based technologies;
- IT services which is managed customer infrastructure (e.g. desktop and end user devices), managed storage and security services, in addition to hosting and application development. IT services also includes the provision of professional consulting and deployment services; and
- other refers to our eBusiness solutions and global data centre.

Solutions management

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Managed network services	**337**	337	-	**0.0%**
IT services	**632**	572	60	**10.5%**
Other	**20**	22	(2)	**(9.1%)**
Solutions management revenue	**989**	931	58	**6.2%**

In fiscal 2006, solutions management revenue increased 6.2% or $58 million mainly due to increases in IT services.

IT services grew by 10.5% or $60 million in the current year mainly due to our wholly owned entity KAZ winning major contracts, one of which was a five-year contract for an estimated $200 million to provide the Department of Defence's Central Office IT Infrastructure Support Services. Fiscal 2006 IT services revenue also included an additional $12 million due to a full 12 months of results for KAZ compared to only 11 months in the previous fiscal year. Managed professional services revenue also contributed to the growth in IT services, with an increase of $16 million due mainly to increased project work on an existing contract.

In addition to increases in IT services, managed data, managed WAN and managed radio, which are in 'managed network services', all contributed positively to the revenue growth due mainly to increases in a number of existing contracts. Managed voice however offset this growth in revenue, declining due to the scaling back of some of our existing contracts in this area.

Full year results and operations review - June 2006

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, though in March 2006 this entity merged with Hong Kong based mobile company New World PCS. As result of this 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			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
CSL New World	**830**	734	96	**13.1%**
TelstraClear	**620**	625	(5)	**(0.8%)**
Other offshore controlled entities	**295**	252	43	**17.1%**
Total offshore controlled entities revenue	**1,745**	1,611	134	**8.3%**

Consolidated revenue from offshore controlled entities increased in fiscal 2006 primarily due to the following factors:

- CSLNW experienced revenue growth across the majority of its revenue streams except for local voice, which continues to be impacted by sustained pricing pressure. The merger between Hong Kong CSL and New World PCS resulted in increased revenue in the current year of $64 million. Excluding this component, revenue has grown in both prepaid and postpaid categories after increased subscribers and handset revenue due to recent promotional activity. Revenue growth was also assisted by a $11 million favourable foreign exchange rate impact.
- TelstraClear experienced a net decline in revenue of 0.8% to $620 million. There were significant declines in calling revenues largely due to price erosion and pricing plan reductions in the Internet and IP business due to heavy retail competition. Revenue was also negatively impacted by the NZ$ exchange rate, causing a $22 million decline. These declines were mostly offset by strong growth in the business sector and an increased contribution from a full year's ownership of the Sytec business. There were also a number of one-off implementation revenues from the provision of new and/or additional services to a number of key customers.
- The 17.1% growth in revenue to $295 million from other offshore controlled entities was mainly due to growth in Europe, Asia and the US. In Europe, the inclusion of a full 12 months ownership of PSINet contributed $15 million in revenue growth. Both Telstra Singapore and Telstra Hong Kong started to grow revenue by selling the full suite of international data products in the Asia market. KAZ also exhibited strong growth in the same region due to the synergies gained by combining this business with our telecommunications business in one bundle to customers. Growth in the US of $15 million was mainly the result of a major contract to provide telecommunications solutions over an integrated global IP-based network, contributing $12 million to revenue growth.

Full year results and operations review - June 2006

For further detail regarding our major off shore subsidiaries CSLNW and TelstraClear refer to the business summaries on pages 40 and 41.

Payphones

Payphones

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Payphone revenue	**104**	121	(17)	**(14.0%)**
Telstra owned and operated payphones (thousands)	**30**	31	(1)	**(3.2%)**
Privately owned and operated payphones (thousands)	**27**	30	(3)	**(10.0%)**
Total number of payphones (in thousands)	**57**	61	(4)	**(6.6%)**

Note: statistical data represents management's best estimates.

Payphone revenue declined by 14.0% to $104 million in fiscal 2006, impacted by substitution to other products, particularly prepaid mobile phones and competitors' prepaid calling cards. As a result of this migration, we removed a number of low usage phones resulting in a 3.2% reduction in the number of Telstra owned and operated payphones. There has also been a decline in privately owned and operated payphones of 10.0%, as private operators removed their support for unprofitable payphones. Telstra owned and operated payphones also reduced due to the loss of some payphones to private operators and lower demand in new growth locations.

Pay TV Bundling

Pay TV Bundling

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Pay TV Bundling revenue	**320**	263	57	**21.7%**
FOXTEL Pay TV Bundling subscribers (thousands)	**292**	280	12	**4.3%**
Austar Pay TV Bundling subscribers (thousands)	**51**	55	(4)	**(7.3%)**
Total Pay TV Bundling subscribers (thousands)	**343**	335	8	**2.4%**

Note: statistical data represents management's best estimates.

Total pay TV bundling revenue grew by $57 million, comprising FOXTEL $46 million and AUSTAR $11 million.

FOXTEL bundled services revenue grew by 20.0% or $46 million after an increase in subscribers and higher revenue per user. As customers have migrated from analogue to digital services, discount plans have been phased out and customers are upgrading their packages. The growth in subscribers was driven by low price installation/upgrade offers made to the market along with the FOXTEL 10th Anniversary promotion, which targeted both new customers and existing customers through digital migration. FOXTEL IQ, an interactive digital feature available to all FOXTEL digital subscribers also performed well, aided by a low installation price point campaign. At 30 June 2006, analogue services in operation represented 14.7% of FOXTEL bundled customers compared with 36.8% at the start of the year.

Full year results and operations review - June 2006

AUSTAR bundled services revenue growth for fiscal 2006 of $11 million was driven by an increase in the average revenue per user after a change in the subscription offerings. Subscriptions however, fell due to lower advertising activity, which resulted in slower sales rates while the disconnection rate remained consistent.

Customer Premises Equipment

Customer premises equipment

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Customer premises equipment revenue	**274**	231	43	**18.6%**

Customer premises equipment (CPE) revenue increased by 18.6% to $274 million mainly driven by strong growth in the sales of PBX equipment and communication packages known as Telstra Business Systems (TBS) packages. TBS sales more than tripled in the current fiscal year due to an expansion of the vendor base combined with new carriage pricing plans and investment made in support tools that enabled improved processing and reduced transaction time.

The current year's revenue also includes a full 12 months of operations for Telstra Business Systems Pty Ltd (formerly known as Damovo (Australia) Pty Ltd) as it was acquired September 2004. We also acquired Converged Networks Pty Ltd, Western Australia's largest CPE dealer in April 2006.

This growth was partially offset by an $11 million decline in first phones/extensions due to continued substitution of rental phones due to sales of CPE and mobiles.

Other Sales and Services

Other sales and services revenue

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Telstra information and connection services	**120**	134	(14)	**(10.4%)**
Customnet and spectrum	**110**	112	(2)	**(1.8%)**
Virtual private network	**17**	15	2	**13.3%**
Card services	**50**	59	(9)	**(15.3%)**
Security products	**34**	33	1	**3.0%**
HFC cable usage	**84**	65	19	**29.2%**
Conferlink	**48**	47	1	**2.1%**
Commercial and recoverable works	**57**	58	(1)	**(1.7%)**
External construction	**108**	85	23	**27.1%**
Other	**131**	133	(2)	**(1.5%)**
Total other sales and services revenue	**759**	741	18	**2.4%**

In fiscal 2006, operating revenue from other sales and services increased by 2.4% or $18 million mainly due to HFC cable usage and external construction revenue.

HFC cable usage includes revenue received from FOXTEL for carriage services, cable installations and service calls. Revenue increased by A$19 million this year due to FOXTEL promotional activity which resulted in an increase in services in operation. There was also a scheduled FOXTEL contract rate increase during the period.

Full year results and operations review - June 2006

External construction, which delivers communications network infrastructure solutions, had revenue growth of 27.1% or $23 million in fiscal 2006. This growth can be mainly attributed to increased activity relating to the construction of the 3G 2100 network in conjunction with our joint venture partner, Hutchison.

The above increases were partially offset by a $14 million decline in information and connection services revenue as a result of lower call volumes. Also, card services declined by 15.3% or $9 million. This was due to products such as Homelink 1800 and telecard being mature products and are being impacted by substitution to more cost effective convenient products such as pre-paid cards and mobiles.

Other Income

Other Income

	Year Ended 30 June			
	2006	2005	Change	**2006/2005**
	$m	$m	$m	(% change)
Proceeds from sale of property, plant and equipment	**46**	51	(5)	**(9.8%)**
Proceeds from sale of investments	**93**	252	(159)	**(63.1%)**
Asset/investment sales	**139**	303	(164)	**(54.1%)**
Cost of property, plant & equipment	**(23)**	(42)	19	**(45.2%)**
Cost of investment	**(31)**	(173)	142	**(82.1%)**
Cost of asset / investment sale	**(54)**	(215)	161	**(74.9%)**
Net gain/loss on assets/investment sale	**85**	88	(3)	**(3.4%)**
USO Levy Receipts	**58**	63	(5)	**(7.9%)**
Government subsidies	**135**	71	64	**90.1%**
Miscellaneous income	**50**	39	11	**28.2%**
Other income	**243**	173	70	**40.5%**
Total other income	**328**	261	67	**25.7%**

In fiscal 2006, total other income increased by 25.7% or $67 million.

In fiscal 2006 proceeds from sale of investments of $93 million were due mainly to the sale of Xantic and Fundi Software Pty Ltd, with Xantic yielding a net gain of approximately $58 million. In fiscal 2005, proceeds from the sale of our investments was mainly made up of the sale of our interests in Intelsat Limited, Infonet Services Corporation and the redemption of the convertible note issued by PCCW.

The majority of the growth in government subsidy revenue was sourced from Higher Bandwidth Incentive Scheme (HiBIS) receipts and the broadband Connect Australia scheme, which can be attributed to an increase in the provision of broadband services to regional, rural and remote areas of Australia. Refer to the Internet and IP products section for further details regarding HiBIS.

Full year results and operations review - June 2006

Operating Expenses

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	2006/2005 (% change)
Labour expense	**4,364**	3,858	506	**13.1%**
Goods and services purchased	**4,730**	4,211	519	**12.3%**
Other expenses	**4,427**	3,815	612	**16.0%**
	13,521	11,884	1,637	**13.8%**
Share of net (gain)/loss from jointly controlled and associated entities	**(5)**	94	(99)	**(105.3%)**
	13,516	11,978	1,538	**12.8%**
Depreciation and amortisation	**4,087**	3,529	558	**15.8%**
Total operating expenses	**17,603**	15,507	2,096	**13.5%**

In fiscal 2006, our total operating expenses (including share of net (gain)/loss from jointly controlled and associated entities) was $17,603 million, compared with $15,507 million in fiscal 2005. One of the major drivers of the 13.5% increase was the inclusion of a restructuring and redundancy provision of $427 million, which has impacted all three of the expense categories. Our operating expenses have been impacted by the following factors:

- costs associated with transformational initiatives and certain project write-offs;
- increased costs associated with network rehabilitation;
- higher redundancy expense as a result of reduced staff numbers as efficiencies have been achieved;
- higher goods and services purchased costs due to increased marketing campaign activities and new offers aiming to stimulate sales growth in a range of our products and services;
- the benefit of ongoing cost control programs, including the consolidation of vendors and IT systems;
- growth in our communications plant asset base, along with the impact of a service life review of our asset base to align with the transformation program, has increased our depreciation and amortisation expense during fiscal 2006; and
- the consolidation of additional operating expenses of $68 million in fiscal 2006 from our acquisition activity including the merger between CSL and New World PCS, as well as the inclusion of a full fiscal year of expenses relating to entities we acquired in fiscal 2005. These included Universal Publishers from December 2004, Telstra Business Systems (formerly Damovo (Australia) Pty Ltd) from September 2004, PSINet from August 2004, and KAZ from July 2004.

Full year results and operations review - June 2006

Labour Expense

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
- restructuring costs, including 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 employees in our offshore subsidiary entities, or casual and part time employees. 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.

During fiscal 2006, we have undertaken a comprehensive review of the sources of our workforce numbers and this has resulted in a restatement of our workforce figure as at the end of fiscal 2005. For 30 June 2005, we previously reported domestic full time employees of 39,657, full time employees and employed equivalents of 46,336 and total workforce of 51,764. We have revised these numbers for fiscal 2006 reporting purposes after standardising our subsidiary entities' methodology for reporting workforce numbers and reviewing some of our data capture systems. We have also revised the way we count staff on long term leave to exclude them from both the opening and closing staff balances to enable us to better manage the business. Staff on long term leave will be excluded from the balance for future reporting.

The vast majority of the net impact of the changes relates to the number of contractors and agency staff.

Labour expense

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Labour expense	**4,364**	3,858	506	**13.1%**
Domestic full time employees (whole numbers) (i)	**37,599**	39,680	(2,081)	**(5.2%)**
Full-time employees and employed equivalents (whole numbers) (ii)	**44,452**	46,227	(1,775)	**(3.8%)**
Total workforce , including contractors and agency staff (whole numbers) (iii)	**49,443**	52,705	(3,262)	**(6.2%)**
Reduction in total workforce in fiscal 2006	**(3,262)**			
Reduction in total workforce in fiscal 2006 excluding impact of New World merger	**(3,859)**			

Note: statistical data represents management's best estimates.

(i) Excludes offshore, casual and part time employees. June 2005 balance has been restated, refer to details above.
(ii) Includes all domestic and offshore employees, including those of our subsidiary entities. June 2005 balance has been restated, refer to details above.
(iii) Includes all domestic and offshore employees, including subsidiary entities as well as contractors and agency staff. June 2005 balance has been restated, refer to details above.

During fiscal 2006, our total workforce decreased by 6.2% or 3,262 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 Telstra group as part of our business transformation initiatives. During the

Full year results and operations review - June 2006

year, our subsidiary Hong Kong CSL merged with New World PCS, which resulted in the Telstra Group acquiring 597 new employees. Excluding the impact of the New World PCS merger on staff numbers, our total full time equivalent staff, contractors and agency staff reduced by 3,859 full time equivalent staff.

We incurred redundancy expenses of $348 million in fiscal 2006 compared with $91 million in fiscal 2005. The higher redundancy expense reflects the implementation of cost control initiatives to improve the efficiency of our operational structure. In addition, a further $186 million of redundancy expense is included as part of a restructuring and redundancy provision as at year end to account for the redundancies over the next 2 years that are considered to have arisen as part of the business restructure.

Our labour expense increased by 13.1% in fiscal 2006 mainly due to:

- the increased levels of redundancy and the redundancy provision referred to above;
- salary increases averaging between 2% and 4% for employees as specified in our enterprise agreements and as per the normal annual salary review process; and
- a full year of ownership of several subsidiaries acquired part way through fiscal 2005 (such as KAZ and Telstra Business Systems), and acquisition of new entities such as the New World Mobility group and a controlling interest in Adstream.

The above increases in labour expense were partially offset by cost reductions associated with the 6.2% decrease in the number of employed staff, contractors and agency staff.

Excluding the impact of redundancy expense, labour expense increased by 1.7%.

Based on the latest detailed actuarial report provided on the financial position of the Telstra Superannuation Scheme (Telstra Super) as at 30 June 2003, we have reported that a surplus in this superannuation 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 2006 and fiscal 2005. As at 30 June 2006, the vested benefits index (the ratio of fund assets to members' vested benefits) of the defined benefit divisions of Telstra Super was 115%. Our contributions to Telstra Super will recommence when the vested benefit index of the defined benefit divisions falls to 103%.The continuance of our contribution holiday is dependent on the performance of the fund and the level of contributions required to meet employer obligations.

In fiscal 2006, we recognised $185 million of pension costs in our labour expenses compared with $203 million in fiscal 2005. This expense is due to the relevant A-IFRS standard requiring us to recognise the actuarially defined movement in our defined benefit pension plans in our operating results.

Full year results and operations review - June 2006

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 includes 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 contractors, 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			
	2006	2005	Change	**2006/2005**
	$m	$m	$m	(% change)
Cost of goods sold	**917**	726	191	**26.3%**
Usage commissions	**281**	289	(8)	**(2.8%)**
Handset subsidies	**504**	424	80	**18.9%**
Network payments	**2,002**	1,904	98	**5.1%**
Service fees	**319**	273	46	**16.8%**
Managed Services	**242**	190	52	**27.4%**
Dealer performance commissions	**113**	41	72	**175.6%**
Paper purchases and printing	**147**	159	(12)	**(7.5%)**
Other	**205**	205	-	**0.0%**
Total goods and services purchased	**4,730**	4,211	519	**12.3%**

Our goods and services purchased increased in fiscal 2006 mainly due to higher cost of goods sold, mobile handset subsidies and network payments. Increases were experienced across most categories within goods and services purchased except for usage commissions and paper costs. Additionally, a restructuring provision of $54 million has been raised in relation to the replacement of EVDO cards and additional customer and dealer costs associated with the shut down of our CDMA network in the future.

Our goods and services purchased increased by 12.3% to $4,730 million in fiscal 2006 due to the following factors:

- the inclusion of the full financial year of expenses relating to our subsidiary entities acquired part way through the prior fiscal year, including KAZ, Telstra Business Systems (formerly Damovo (Australia) Pty Ltd), PSINet and Universal Publishers. In fiscal 2006, we also acquired New World PCS, the consolidation of which has caused an increase of goods and services purchased expense of $29 million;
- a rise in cost of goods sold mainly due to higher sales volumes for mobile handsets, primarily driven by increased market campaign activity, strong BigPond broadband demand, costs of supporting the Commonwealth Games, together with sales growth in other product categories such as EVDO, CPE for small business customers, Managed WAN equipment and voice related products. Also contributing to the increase are payments made to Brightstar, in accordance with our procurement agreement with them to centrally source wireless devices from global suppliers with a view to achieving cost savings. Inclusive of these payments, the Brightstar arrangement has provided net savings of approximately $70 million, primarily relating to handset costs;
- an increase in mobile handset subsidies, attributable to a rise in the take up of handsets on subsidised plans as well as higher average subsidies offered, especially following a significant campaign

undertaken in the last quarter, whereby a greater range of handsets are being subsidised. As a result, our average subscriber acquisition cost has increased from $120 to $137. In addition, the CSL New World Mobility Group has implemented a more aggressive handset subsidy policy in order to increase handset sales. In fiscal 2006, we have also made an A-IFRS accounting policy change to expense handset subsidies as incurred, as opposed to previously deferring and amortising them over the contract period. The prior year comparative figure has been adjusted to allow a like for like comparison;

- network payments continued to grow due to volume increases of domestic mobile and SMS traffic terminating on other carriers' networks, partially offset by a reduction in the average mobile terminating rate. Additionally, expansion and growth in our UK, USA and Asian operations have driven growth in our offshore outpayments. Also attributable to this increase is higher outbound roaming revenue, partly offset by a reduction of costs through routing traffic to overseas carriers that offer lower prices and favourable foreign exchange variations in our New Zealand operations. Additional Network Access Charges were also incurred as a result of our 3G 2100 partnership activities with Hutchison;
- service fees increased by 16.8% to $319 million in fiscal 2006 led by a rise in bundling of pay television services due to growth in bundled FOXTEL subscribers;
- managed services costs grew by 27.4% to $242 million in fiscal 2006, mainly attributable to increased third party maintenance and service costs for the support of customer contracts. There are also a number of reclassifications from other expenses such as service contracts, service fees and consultancy amounting to $26 million. Offsetting this increase are decreases due to lease renegotiations;
- growth in dealer performance commissions, mainly attributable to increased proactive sales activity in our personal calling program. New dealer payments resulting from the implementation of the new dealer remuneration model have also contributed to the growth; and
- an increase in other goods and services purchased due to the inclusion of a restructuring provision of A$54 million in fiscal 2006, offset by a decrease in commercial project payments as described below.

These increases were partially offset by a decrease in other goods and services expenses such as usage commissions, commercial project payments and paper purchases and printing costs:

- usage commissions decreased by $8 million mainly as a result of the discontinuation of commission payments to Keycorp following our acquisition of their Transaction Network Solutions business during the year. This was partly offset by increased dealer commissions mainly associated with non-mobile related products, including BigPond products;
- commercial project payments declined from $59 million in fiscal 2005 to $34 million in fiscal 2006 mainly relating to a lower level of deferral and amortisation of our basic access installation costs. The expense fluctuates in accordance with our installations over the five prior years. An equivalent amount is amortised into revenue and hence there is no EBIT impact. Also contributing to the decline was a change in the line usage billing arrangement for outsourced faxstream costs; and
- paper purchase and printing costs decreased from $159 million in fiscal 2005 to $147 million in fiscal 2006 due to savings achieved through printing contract discounts, together with a reclassification of expenses into cost of goods sold. There was also a reduction in printing costs relating to superannuation industry contracts after a push towards the use of online notifications.

Full year results and operations review - June 2006

Other Expenses

Other expenses

	Year Ended 30 June			
	2006 **$m**	2005 $m	Change $m	**2006/2005 (% change)**
Property and IT rental expense	**559**	572	(13)	**(2.3%)**
Net foreign currency conversion losses/(gains)	**2**	(40)	42	**(105.0%)**
Audit fees	**8**	7	1	**14.3%**
Service contracts and other agreements	**1,836**	1,556	280	**18.0%**
Promotion and advertising	**356**	330	26	**7.9%**
General and administration	**793**	806	(13)	**(1.6%)**
Other operating expenses	**544**	394	150	**38.1%**
Impairment and diminution expenses	**329**	190	139	**73.2%**
Total other expenses	**4,427**	3,815	612	**16.0%**

Our other expenses were $4,427 million in fiscal 2006 and $3,815 million in fiscal 2005, representing a 16.0% increase year on year. A restructuring provision of $137 million was raised at year end mainly relating to property rationalisation, cancellation of server leases, the decommissioning of certain IT platforms and operational and business support systems and related stock obsolescence. Excluding the impact of the provision, our total other expenses grew by 12.5% to $4,290 million.

Our other expenses in fiscal 2006 include an additional $17 million of expenses attributable to the merger of CSL with New World PCS during the period. In addition, a full twelve months of expenses have been included in fiscal 2006 for KAZ, PSINet, Universal Publishers, and Telstra Business Systems (formerly Damovo), which were acquired part way through fiscal 2005.

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 from $1,556 million in fiscal 2005 to $1,836 million in fiscal 2006, mainly driven by the following factors:

- increased network maintenance and rehabilitation activity;
- costs associated with transformational initiatives;
- maintenance of the existing 3GSM 2100 MHz network and the operational expenditure relating to the construction of the new 3GSM 850 MHz network;
- volume based increases including installations for digital pay television, as well as increased activations and fault rectifications for BigPond products due to product growth; and
- a rise in consultancy costs associated with the company transformation activity and increased market research activity due to a focus on understanding customer needs.

The above increases are partly offset by savings from the renegotiation of a major vendor contract, a reduction in mainframe server lease charges as well as the completion of consulting work from fiscal 2005.

General and administration expenses decreased from $806 million in fiscal 2005 to $793 million in fiscal 2006. This was driven by lower IT costs resulting from savings achieved in repairs and maintenance through continued infrastructure consolidation. The closure of an IT system and the decommissioning of an IT platform have also contributed to reduced IT related costs. Discretionary costs such as seminars and conferences, travel and entertainment costs have decreased in fiscal 2006 as a result of a strong focus on cost reduction. Legal costs have however risen in the year due to increased litigation and other legal work, especially around the C7 case (refer to note 27 of the annual report for further details), operational separation issues and various project initiatives.

Other operating expenses increased from $394 million to $544 million during fiscal 2006 primarily due to the provision for restructuring of $105 million raised in this category. Excluding the impact of the provision, our other operating expenses increased by $45 million. This was largely driven by lower construction activity resulting in higher operations and maintenance activity being expensed.

Property and IT rental expense decreased by 2.3% to $559 million, mainly due to reduced PC leasing costs driven through a consolidation of server leases, which has enabled us to negotiate contracts at a more competitive rate. The decommissioning of an old IT platform and the consolidation of various vendor contracts have also contributed to the decrease in IT rental costs.

Our promotion and advertising costs increased by 7.9% to $356 million during fiscal 2006 mainly due to increased spend during the Commonwealth Games, as well as more marketing activity in the face of increased competition and efforts to stimulate revenue.

Our impairment and diminution expense has increased from $190 million in fiscal 2005 to $329 million in fiscal 2006, mainly attributable to the retirement of a number of IT assets and increased costs associated with the cancellation of partially completed capital projects after a review of project direction as part of our transformation strategy. Also included in fiscal 2006 is a provision relating to restructuring of $32 million. Our inventory write down expense has also risen due to increased write-offs in our construction business, as well as the impact of our active promotion of mobile handsets, causing slow moving stock to be written off more quickly. This increase is partly offset by the decrease in our bad and doubtful debts, which decreased from $150 million in fiscal 2005 to $139 million in fiscal 2006. Improved credit management performance has led to lower provision requirements and write-offs, as well as fewer payments to external debt collection agents.

Net foreign currency conversion costs represents the remaining foreign currency exposure after taking into account our hedging activities. The loss of $2 million in fiscal 2006 compared with a gain of $40 million in fiscal 2005 is mainly due to an A-IFRS accounting adjustment relating to the REACH capacity prepayment, which was processed in fiscal 2005.

Full year results and operations review - June 2006

Share of net (gain)/loss from jointly controlled and associated entities

Share of net (gain)/loss from jointly controlled and associated entities

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Share of net (gain)/loss from jointly controlled and associated entities	**(5)**	94	(99)	**(105.3%)**

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

In fiscal 2005, we entered into an agreement with our joint venture entity, REACH, which included a commitment to fund half of REACH's committed capital expenditure for a period until 2022. Under A-IFRS, this transaction was deemed to be part of our investment in REACH and resulted in equity accounted losses being recognised in the fiscal 2005 year.

The current year equity accounting gain has arisen after improved performance from our joint venture entity Xantic prior to its sale.

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			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Depreciation	**3,183**	2,876	307	**10.7%**
Amortisation	**904**	653	251	**38.4%**
Total depreciation and amortisation	**4,087**	3,529	558	**15.8%**

Our depreciation and amortisation expense has risen by 15.8% to $4,087 million in fiscal 2006. During fiscal 2006, we have undertaken a strategic review of the service lives of our assets as part of the transformation strategy. As a result, we have accelerated depreciation and amortisation by $422 million mainly relating to the CDMA network, our switching systems, certain business and operational support systems and related software.

Excluding the impact of the review, our depreciation and amortisation grew by 3.9% to $3,665 million, mainly attributable to:

- growth in our communications plant asset base, which is consistent with our level of capital expenditure over recent years; and
- consolidation of $16 million of depreciation and amortisation expenses from our newly merged entity, New World PCS, along with the inclusion of a full 12 months of depreciation and amortisation expenses relating to entities acquired in fiscal 2005.

Full year results and operations review - June 2006

Net Finance Costs

Net finance costs

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	2006/2005 (% change)
Finance costs	1,002	963	39	4.0%
Finance income	(66)	(83)	17	(20.5%)
Net finance costs	936	880	56	6.4%

Our borrowing costs are influenced by:

- our debt level;
- interest rates;
- our debt maturity profile;
- our interest payment profile; and
- our level of cash assets (affects net debt).

In fiscal 2006, our net debt levels increased from $11,772 million to $13,057 million. This increase was driven by our cash requirements to fund the payment of the fiscal 2005 final dividend and the fiscal 2006 interim dividend, both of which included a 14c per share ordinary dividend and a 6c per share special dividend. This level of dividend payments is higher than in previous periods and hence, required an increase in our borrowing levels. No decision has been made with respect to the level of payment of future dividends.

The higher level of net debt has driven an increase in our net finance costs despite the fact that our net cost of debt has declined marginally during the year. The reason for the decline in average cost of debt is that long term bonds which were issued at historically high interest rates are maturing and being refinanced at the current, comparatively lower, interest rates.

Income tax expense

Income Tax Expense

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	2006/2005 (% change)
Income Tax Expense	1,380	1,746	(366)	(21.0%)
Effective Tax Rate	30.3%	28.8%		1.5%

In fiscal 2006, our income tax expense decreased by 21.0% to $1,380 million. The primary driver of the reduction in tax expense is lower profits for the year compared to fiscal 2005.

In fiscal 2006, the effective tax rate increased to 30.3% compared with the effective tax rate of 28.8% in fiscal 2005. The higher effective tax rate is due to a change in the taxation adjustments for items that have different treatments for accounting and taxation purposes, such as equity accounted FOXTEL losses and the depreciation of certain items of plant and equipment. In addition, the current year tax expense includes an amount for under provision of tax in the prior year that is $34 million higher than the amount included in fiscal 2005 for under provision in fiscal 2004.

Full year results and operations review - June 2006

Major Subsidiaries - Financial Summaries

Below is a summary of the major reporting lines for our three largest subsidiaries: Sensis, TelstraClear and CSL New World Mobility. 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

Sensis financial summary

	Year Ended 30 June			
	2006	2005	Change	Change
	$m	$m	$m	%
Sales revenue	**1,826**	1,708	118	**6.9%**
Total income	**1,827**	1,708	119	**7.0%**
Total expenses	**(917)**	(863)	(54)	**6.3%**
EBITDA	**1,001**	908	92	**10.2%**
EBIT	**910**	845	65	**7.7%**
CAPEX	**100**	83	17	**20.5%**
EBITDA margin	**54.8%**	53.2%		**1.6%**

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

We are a leading provider of advertising and search services through our advertising business Sensis and its respective subsidiaries. Sensis provides innovative advertising and local search solutions through a print, online, voice, wireless and satellite navigation network.

The 6.9% increase in sales revenue to $1,826 million has primarily been driven by advertising and directories revenue as described in the Advertising and Directories product discussion. The growth in this area has been driven by good performance in White Pages and Yellow Pages print and online. The inclusion of acquired entities in fiscal 2006 has also contributed to growth in the current year.

Operating expenses increased by 6.3% due mainly to the following:

- Labour expenses grew by $18 million due to organic growth of the workforce, redundancy costs and a $10 million write back of a deferred expense provision;
- Cost of goods sold increased by $14 million after the inclusion of a full 12 months of results from Universal Publishers acquired mid way through fiscal 2005; and
- Increased depreciation and amortisation expense by $27 million after commissioning new software, the inclusion of amortisation for Universal Publishers and Adstream and the revision of certain software service lives as part of Telstra's transformation program.

Cost management and growing yields and margins in print and online led to EBITDA growth of 10.2% in fiscal 2006.

Full year results and operations review - June 2006

CSL New World Mobility Group Financial Summary

In February 2001, we acquired a 60% ownership interest in CSL. We paid US$1,694 million ($3,085 million), including incidental acquisition costs, to acquire this controlling interest. In June 2002, we acquired the remaining 40% ownership interest in CSL as part of our redemption of a convertible note from PCCW. In March 2006, we merged the CSL entity with New World PCS to form the CSL New World Mobility Group (CSLNW). This transaction involved us exchanging a 23.6% share in CSL and receiving a a controlling interest in the merged group of 76.4%.

CSLNW operates in the highly competitive Hong Kong mobile market and has delivered revenue growth in fiscal 2006 despite a difficult operating environment, characterised by significant market competition and local voice price erosion. CSL and New World PCS have retained their own brandings as they target different market segments. CSL remains Hong Kong's premium provider of mobile voice and data services whilst New World PCS targets value conscious customers with a low cost business model. The merged entity provides a much broader customer base for growth.

CSL New World financial summary

	Year Ended 30 June			Year Ended 30 June		
	2006	2005	Change	**2006**	2005	Change
	A$m	A$m	%	**HK$m**	HK$m	%
Total income	**833**	735	**13.3%**	**4,831**	4,308	**12.1%**
Total expense	**(757)**	(648)	**16.8%**	**(4,145)**	(3,583)	**15.7%**
EBITDA	**240**	217	**10.6%**	**1,390**	1,272	**9.3%**
EBIT	**77**	87	**(11.5%)**	**686**	725	**(5.4%)**
CAPEX	**98**	128	**(23.4%)**	**568**	755	**(24.8%)**
EBITDA margin	**28.8%**	29.5%	(0.8%)	**28.8%**	29.5%	(0.8%)

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.
Amounts include 3 months of New World PCS in fiscal 2006.

Total income increased by 12.1% or HK$523 million in fiscal 2006. The majority of the increase resulted from the inclusion of the New World PCS business from March 2006. This resulted in an 8.7% increase in total income year on year. The remaining revenue growth was driven by rising data, international voice, 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 operating expenses increased by 15.7% mainly due to the following:

- the incorporation of costs after the merger with New World PCS;
- increased subsidies as part of heightened promotional activity to drive sales; and
- higher offshore outpayments associated with higher international voice revenues.

Depreciation and amortisation expense increased as CSLNW is now carrying higher network assets due to the roll out of their 3G network. EBITDA increased by 9.3% or HK$118 million whilst EBIT decreased by 5.4% or HK$39 million due to the impact of higher depreciation.

CSLNW continues to enhance its 3G network and promote 3G services through the deployment of pioneering technology and innovative applications. In February 2006, the company announced the launch of Hong Kong's first 3G Mobile TV service enabling customers to enjoy a variety of news and "infotainment" stations.

Full year results and operations review - June 2006

TelstraClear Financial Summary

TelstraClear, the second largest full service carrier in New Zealand, has been operating in its current form since December 2001. In December 2001, we merged our 50% owned joint venture, TelstraSaturn and CLEAR Communications, to form TelstraClear. As part of this transaction, we acquired an additional 8.4% interest in the merged entity and began the consolidation of 58.4% of TelstraClear's results. In April 2003, we acquired the remaining 41.6% interest in TelstraClear and consolidated 100% of TelstraClear's results from that date.

TelstraClear financial summary

	Year Ended 30 June			Year Ended 30 June		
	2006 A$m	2005 A$m	Change %	**2006 NZ$m**	2005 NZ$m	Change %
Total income	**620**	625	**(0.8%)**	**693**	676	**2.5%**
Total expense	**(645)**	(648)	**(0.5%)**	**(713)**	(695)	**2.6%**
EBITDA	**111**	112	**(0.9%)**	**124**	122	**1.6%**
EBIT	**(25)**	(24)	**4.2%**	**(20)**	(19)	**5.3%**
CAPEX	**126**	115	**9.6%**	**141**	125	**12.8%**
EBITDA margin	**17.8%**	18.0%	(0.1%)	**17.9%**	18.0%	(0.2%)

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.

In fiscal 2006, revenue increased by 2.5% to NZ $693 million for the following reasons:

- the full year impact of the national HomePlan offering in the consumer segment; and
- the current year included the first whole year of Sytec revenue after its acquisition in November 2004.

These increases were offset by:

- access and call revenue declines in the wholesale and small to medium enterprise segments due to price erosion caused by competition in the market. This was moderated by growth in our customer bases in those segments; and
- Internet revenues have declined, particularly in the second half, as reduced pricing plans have impacted yield in the business segment.

Total operating expense increased by 2.6% to NZ $713 million due to the following:

- an increase in outpayments due to higher revenue; and
- a small increase in labour expenses driven by the inclusion of a full year of Sytec costs.

TelstraClear's acquisition of local ICT service provider, Sytec Resources Limited in November 2004 and its controlled entities was an important step to leverage TelstraClear's existing service capability and provided growth and opportunities in this segment in fiscal 2006. New Zealand is a strategically important market for our trans-Tasman customers and the combination of TelstraClear and Telstra enables us to provide customers on both sides of the Tasman with seamless communication and IT solutions.

REACH

REACH is primarily focused on meeting the increasing needs of its shareholders, Telstra and PCCW, as well as third party voice and satellite services. We are the premier provider of international voice and satellite services in Asia via the operation and management of the most diverse high-speed network in the region.

In February 2001, we sold our global wholesale business, including certain offshore controlled entities, to REACH in exchange for 50% ownership in REACH.

Since the original transaction, REACH has been operating in a difficult environment. Prices for international voice and data carriage have fallen, but growth in usage has not been sufficient to compensate for the loss in revenue caused by the price reductions. Consequently, we have previously been required to make a write down of our investment, reducing the carrying value to nil. Equity accounting was suspended at that date and remains suspended. As a result, our share of net profits/ (losses) in relation to REACH are not booked in the Telstra Group results.

Fiscal 2006 operational performance of the business continued to track according to plan with a focus on consolidation of a new operating model. Data volumes continue to grow strongly and voice business volumes are stable. REACH has also recently signed a memorandum of understanding (MOU) with a consortium of entities to plan and develop a proposal to build an international undersea cable linking South East Asia with the United States of America (USA). In addition, in October 2005, Reach announced the launch of the first stage of its international IP enabled Next Generation Network.

Full year results and operations review - June 2006

Cash flow

Cash flow data

	Year Ended 30 June			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Receipts from customers	**25,229**	24,526	703	**2.9%**
Payments to suppliers/employees	**(14,785)**	(13,848)	(937)	**6.8%**
Net cash generated by operations	**10,444**	10,678	(234)	**(2.2%)**
Income tax paid	**(1,882)**	(1,718)	(164)	**9.5%**
Net cash provided by operating activities (i)	**8,562**	8,960	(398)	**(4.4%)**
Net cash used in investing activities (i) (see table below)	**(4,012)**	(3,766)	(246)	**6.5%**
Operating cash flow less investing cash flow (i)	**4,550**	5,194	(644)	**(12.4%)**
Movements in borrowings/finance leases	**493**	1,393	(900)	**(64.6%)**
Employee share loans	**24**	19	5	**26.3%**
Dividends paid	**(4,970)**	(4,124)	(846)	**20.5%**
Share buy-back	**-**	(756)	756	**-**
Finance costs paid	**(940)**	(879)	(61)	**6.9%**
Purchase of shares for employee share plans	**(6)**	-	(6)	**-**
Net cash used in financing activities (i)	**(5,399)**	(4,347)	(1,052)	**24.2%**
Net increase/(decrease) in cash	**(849)**	847	(1,696)	**(200.2%)**

(i) Please note: Due to the implementation of A-IFRS, we have revised the presentation of the cash flow summary and our statutory reported statement of cash flows. This has resulted in some reclassifications between our key cash flow totals (net cash provided by operating activities, net cash used in investing activities and net cash used in financing activities). Consequently, the 2005 comparative totals disclosed for these lines have changed from the amounts disclosed as at 30 June 2005. The most significant change is the reclassification of our finance costs paid from operating into financing, and the reclassification of interest received from operating into investing.

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 2006, net cash provided by operating activities decreased by 4.4% to $8,562 million. Higher revenue and lower working capital items were offset by higher expense payments. The key drivers of our increased revenue were our mobiles and broadband products. Our higher expense payments were mainly due to increased labour costs, in particular redundancy payments, our variable operating expenditure items that increase with revenue and our service contracts and agreements expenditure.

In addition, our cash paid to the Australian Taxation Office was $164 million higher in fiscal 2006 than in fiscal 2005 due to a low tax instalment rate requiring us to make a larger final tax payment in respect of the 2005 fiscal year. The timing of the final payment fell into the 2006 fiscal year.

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			
	2006 $m	2005 $m	Change $m	**2006/2005 (% change)**
Switching	**452**	338	114	**33.7%**
Transmission	**426**	358	68	**19.0%**
Customer access	**800**	870	(70)	**(8.0%)**
Mobile telecommunications networks	**1,043**	497	546	**109.9%**
International assets	**338**	279	59	**21.1%**
Capitalised software	**556**	523	33	**6.3%**
Specialised network functions	**237**	291	(54)	**(18.6%)**
Other	**340**	377	(37)	**(9.8%)**
Operating capital expenditure	**4,192**	3,533	659	**18.7%**
Other intangibles	**63**	6	57	**950.0%**
Capital expenditure before investments	**4,255**	3,539	716	**20.2%**
Add: investment expenditure	**48**	590	(542)	**(91.9%)**
Capitalised expenditure and investments	**4,303**	4,129	174	**4.2%**
Sale of capital equipment, investments and other proceeds	**(139)**	(244)	105	**(43.0%)**
Proceeds from other investments	**(86)**	(76)	(10)	**13.2%**
Repayment of loans to jointly controlled and associated entities	**-**	37	(37)	**-**
Interest received	**(66)**	(78)	12	**(15.4%)**
Dividend received	**-**	(2)	2	**-**
Net cash used in investing activities	**4,012**	3,766	246	**6.5%**

In fiscal 2006, our expenditure on operating capital, intangibles and investments amounted to $4,303 million, an increase of 4.2% on the previous fiscal year. This growth was driven by our next generation network transformation program, which is part of our ongoing strategy of transforming the business.

The increases in our operating capital expenditure were across most capital expenditure categories, with the exception of minor decreases in customer access and specialised network functions. The drivers of our operating capital expenditure for fiscal 2006 were as follows:

- higher domestic switching as a result of our wireline transformation program, which involves building a new IP core and the next generation ethernet transmission network. Further expenditure was also incurred to cater for increasing demand for broadband ADSL and specialised wideband services;
- higher transmission expenditure to support the new 3GSM 850 network and to provide capacity to support increased broadband demand for digital subscriber line (DSL) technology;
- lower expenditure on customer access due to the achievement of operational efficiencies and the use of new IP ADSL technology at a lower unit cost;
- significantly higher expenditure on our mobile networks primarily due to 2 items: payments to Hutchison amounting to $312 million for the purchase of a 50% share of their 3GSM 2100 network, acquired in fiscal 2005 but payment was deferred until fiscal 2006; and costs incurred in relation to

Full year results and operations review - June 2006

the roll out of our own 3GSM 850 network. Most of the expenditure incurred on the 3GSM 850 network relates to installing and updating our base stations to enable them to carry the new network. During fiscal 2006, we installed 3,500 base stations out of an intended long term program in excess of 5,000 base stations;

- higher expenditure on international assets, predominantly related to the purchase of additional international transmission capacity to facilitate increased internet traffic with the United States;
- marginally higher expenditure on capitalised software as we embark on a 3 to 5 year program of transformational projects. In this early stage of the program we have been through a process of rationalising and streamlining our software applications; and
- lower expenditure on specialised network functions due to the postponement of a number of projects while we undergo a review process to ensure alignment of each project with our strategic direction. The expenditure we made during the year was mainly in relation to improving the reliability and robustness of the network and on improving the IP telephony network infrastructure platform.

Our expenditure on investments and other intangibles amounted to $111 million in fiscal 2006, compared with $596 million in fiscal 2005. Investment expenditure was significantly higher in fiscal 2005 predominantly due to our acquisitions of KAZ and PSINet.

In fiscal 2006, our cash payments for investments and intangibles resulted from the following items:

- $56 million for the acquisition of the TNS business assets and customer bases from our associated entity Keycorp Limited;
- $21 million for the acquisition of a further 25% of the issued share capital of Adstream Australia Limited, to increase our shareholding to 58% making Adstream a controlled entity;
- $5 million cash contribution to our joint venture entity FOXTEL; and
- other minor investments.

In fiscal 2005, our cash payments for investments resulted from the following items:

- $340 million for the acquisition of 100% of the issued share capital of KAZ;
- $124 million for the acquisition of 100% of the issued share capital of PSINet;
- $66 million for the acquisition of 100% of the issued share capital of ESA Holding Pty Ltd and its controlled entity Damovo (Australia) Pty Ltd (now known as Telstra Business Systems), and Damovo HK Limited for $66 million; and
- $46 million for the acquisition of 100% of the issued share capital of Universal Publishers.

Our proceeds from the sale of capital equipment, sale of investments and other proceeds amounted to $139 million in fiscal 2006, compared with $244 million in fiscal 2005.

Our cash proceeds from asset sales in fiscal 2006 included the following:

- the sale of our share of Xantic B.V. of $89 million; and
- sale of property, plant and equipment for cash receipts of $50 million.

Our cash proceeds from asset sales in fiscal 2005 included the following:

- the sale of our 1.7% shareholding in Intelsat Limited for $69 million;
- proceeds from sale of property, plant and equipment of $68 million; and
- the sale of our 5.3% shareholding in Infonet Services Corporation for $65 million.

Full year results and operations review - June 2006

During fiscal 2006 and fiscal 2005 we also received cash from other investment transactions. These included:

- receipt of $42 million as part of the settlement of the merger transaction with New World PCS in fiscal 2006;
- receipt of $18 million from a share buy-back performed by Xantic prior to our disposal of our interest in the company in fiscal 2006;
- receipt of $16 million from our associated entity Keycorp, due to a return of capital return in fiscal 2006; and
- the redemption of the converting note issued by PCCW with a cash consideration of $76 million in fiscal 2005.

We expect to incur future capital expenditure in the following areas:

- meeting ongoing customer demand for existing products and services, while ensuring service levels are improved;
- developing new products and services to meet the changing needs of our customers;
- asset lifecycle management;
- providing additional coverage and depth on our 3G mobile network;
- upgrading our customer access network by delivering a new wireline IP core;
- further development of our broadband and online infrastructure to meet future growth;
- providing telecommunications services to rural and remote areas; and
- internal business support infrastructure to ensure continued productivity improvements, operational efficiencies and customer relationship process improvements.

We believe our cash flow from operating activities and available borrowings will be sufficient to meet our anticipated capital expenditure and investment requirements.

Net cash used in financing activities

Our net cash used in financing activities increased in fiscal 2006 by 24.2%.

A significant portion of our net financing cash outflows relate to payment of dividends and, in fiscal 2005, a share buy-back. The combined amount paid to shareholders in fiscal 2005 via dividends and the share buy-back was largely consistent with the amount paid to shareholders in fiscal 2006. In fiscal 2006, shareholders received the payment of two additional special dividends of 6c each per share, amounting to $1,494 million.

We also receive and repay significant amounts in relation to our borrowings which increase and decrease to match our working capital requirements and other business needs.

The net increase in cash used in financing activities is due to a higher net level of proceeds from our debt issuances in fiscal 2005. Our net proceeds from debt were high during fiscal 2005 due to the refinancing of debt which matured during the year and our need to increase our level of liquidity to fund dividend payments.

During the year, we received $8,641 million in borrowed funds and repaid $8,141 million. In fiscal 2005, we received $7,416 million in borrowed funds and repaid $6,007 million. This resulted in a net increase in cash outflow of $909 million. This position offsets the outflows from the payment of dividends and finance costs.

Full year results and operations review - June 2006

Balance Sheet

Balance Sheet

	Year Ended 30 June			
	2006 **$m**	2005 $m	Change $m	**2006/2005** (% change)
Current assets				
Cash and cash equivalents	**689**	1,548	(859)	**(55.5%)**
Other current assets	**4,190**	4,034	156	**3.9%**
Total current assets	**4,879**	5,582	(703)	**(12.6%)**
Non current assets				
Property, plant and equipment	**23,622**	22,891	731	**3.2%**
Intangibles - goodwill	**2,073**	2,037	36	**1.8%**
Intangibles - other	**4,050**	4,292	(242)	**(5.6%)**
Other non current assets	**1,551**	409	1,142	**279.2%**
Total non current assets	**31,296**	29,629	1,667	**5.6%**
Total assets	**36,175**	35,211	964	**2.7%**
Current liabilities				
Borrowings	**1,969**	1,507	462	**30.7%**
Other current liabilities	**5,917**	4,905	1,012	**20.6%**
Total current liabilities	**7,886**	6,412	1,474	**23.0%**
Non current liabilities				
Borrowings	**11,409**	10,941	468	**4.3%**
Other non current liabilities	**4,048**	4,200	(152)	**(3.6%)**
Total non current liabilities	**15,457**	15,141	316	**2.1%**
Total liabilities	**23,343**	21,553	1,790	**8.3%**
Net assets	**12,832**	13,658	(826)	**(6.0%)**
Equity				
Telstra Entity	**12,586**	13,656	(1,070)	**(7.8%)**
Minority interests	**246**	2	244	**-**
Total equity	**12,832**	13,658	(826)	**(6.0%)**

We continue to maintain a strong financial position with net assets of $12,832 million as at 30 June 2006 and $13,658 million as at 30 June 2005. The decrease in net assets of $826 million comprised an increase in total liabilities of $1,790 million offset by an increase in total assets of $964 million.

The movement in total assets of $964 million was primarily due to:

- cash assets decreased by $859 million partially due to the proceeds on our €1 billion bond issue being received just prior to 30 June 2005, which was subsequently invested in the short term money market. The current level of cash is more reflective of our normal cash holdings;
- our property, plant and equipment increased by $731 million, largely due to high capital expenditure on our network and our new wireline IP core driven by our next generation network transformation projects;
- other intangibles decreased by $242 million, mainly because the amortisation of our software assets was greater than our expenditure on new software during the year with the rationalisation and streamlining of many of our software applications as part of our business transformation; and
- other non current assets increased by $1,142 million mainly due to an increase in the actuarially determined value of our defined benefit pension asset.

Full year results and operations review - June 2006

The movement in total liabilities of $1,790 million was primarily due to:

- total borrowings, current and non-current, increased by $930 million. This increase reflects our need to increase our level of liquidity during the year to fund our various working capital and business requirements, along with two special dividend payments made during the fiscal year;
- other current liabilities increased by $1,012 million primarily due to an increase in our trade creditors and accruals reflecting the large amount of activity, in particular construction activity, undertaken toward the end of the fiscal year. In addition, included in both current and non-current liabilities, we have provided for restructuring and redundancy expenses planned to be incurred as part of our transformation of the business over the next two years; and
- other non-current liabilities decreased by $152 million primarily due to a change in our cross currency swap position in line with currency movements and our hedging requirements.