

25 September 2006

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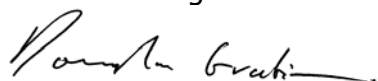
ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited 2006 Annual Review

In accordance with the listing rules, I attach an announcement for release to the market.

Yours sincerely

A handwritten signature in black ink, appearing to read "Douglas Gratton".

Douglas Gratton
Company Secretary

A man with short dark hair, wearing a bright orange V-neck sweater over a white collared shirt, stands in the center of a crowd. The crowd consists of many other people, but they are rendered in grayscale, making the man stand out as the only person in color. The background is a dense group of people, mostly seen from behind or in profile.

annual
review
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.

Cautionary statement regarding “forward-looking statements”

Some of the information contained in this annual review may constitute forward-looking statements that are subject to various risks and uncertainties. These statements can be identified by the use of forward-looking terminology such as ‘may’, ‘will’, ‘expect’, ‘anticipate’, ‘estimate’, ‘continue’, ‘plan’, ‘intend’, ‘believe’, ‘objectives’, ‘guidance’ or other similar words including our guidance for the 2007 fiscal year. These statements discuss future expectations concerning results of operations or of financial condition or provide other forward-looking information. Our actual results, performance or achievements could be significantly different from the results expressed in, or implied by, those forward-looking statements. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this annual review are set out in the ‘Risk Factors’ section on page 7 and elsewhere in this annual review. Given these risks, uncertainties and other factors, you should not place an undue reliance on any forward-looking statement, which speak only as of the date made.

Telstra Corporation Limited

ABN 33 051 775 556

Welcome to Telstra’s 2006 Annual Review. The Annual Review is a “short form” overview, designed to provide you with a concise summary of Telstra’s activities and financial performance for the year ended 30 June 2006.

The Annual Review does not represent or summarise all publicly available information about Telstra. There is further publicly available information about Telstra in our Annual Report, as well as information provided to the Australian Stock Exchange (ASX) and the Australian Securities and Investments Commission (ASIC). To obtain a free copy of the Annual Report please call 1300 88 66 77.

AGM

Telstra’s Annual General Meeting will be held on Tuesday 14 November 2006 in Melbourne. The Notice of Meeting will contain details about the location and meeting time.

FINANCIAL CALENDAR

Refer to page 77 for the financial calendar.

INVESTOR DAY – 6th October 2006

Further information on investor day will be available on the Telstra Investor Relations website.

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 Message to shareholders
- 7 Risk factors
- 11 Financial review
- 14 Transformation strategy update
- 21 Regulation
- 24 Senior management team and executive officers
- 26 Business unit summary
- 32 Corporate social responsibility
- 34 Board of directors
- 36 Directors’ report
- 44 Remuneration report
- 60 Concise financial report
- 73 Five year financial summary
- 74 Telstra facts
- 75 Glossary of terms
- 76 Major shareholders
- 77 Shareholder information, contact details and financial calendar

Dear Shareholder

We are pleased to report that in the past year we have started to execute our transformation plan for Telstra and we are investing to achieve that plan. The transformation plan targets 10 different areas for restructuring and improvement – including everything from updated business operating systems to the deployment of a national 3G wireless broadband network to 98% of Australians (and their handsets and computers). What you are beginning to see is the emergence of a new media-communications company – what we call the “New Telstra”.

It is important that you, as a shareholder, understand that there are significant costs and risks involved in undertaking our transformation journey. We face substantial regulatory risks in our business which have had, and we expect will continue to have, substantial adverse effects on our operations and financial performance. We also face risks in executing our three-to five-year transformation strategy. But, for our strategy to succeed we must incur those costs, re-invest in the business and take the risks now. Refer to page 7 of this annual review for a detailed explanation of the risks faced by Telstra.

We are pleased to report that our transformation plan is on track, on budget and on time. The investments we are making today to improve shareholder value in the future are substantial and made the fiscal 2006 year a challenging one for Telstra shareholders. At 30 June, we were only seven months into a five-year transformation. We are already seeing substantial achievements in cost cutting and important new revenues from products and services, especially in the second half of fiscal 2006 as the effects of the transformation begin to kick in. Over the past year we have achieved over 25% of our 10,000 to 12,000 five-year headcount reduction target while continuing to improve our customer service across almost every measure.

Going forward, Telstra has a plan for Australia. As we've said above, our plan includes wireless broadband to 98% of all Australian homes and businesses by early 2007. Our plan includes more user-generated content, increased use of data across mobiles and personal digital assistants (PDAs) to deliver tailored, synchronised and timely information for customers who are increasingly on the move or working less conventional hours.

Financial Highlights	2006 \$m	2005 \$m	Change \$m	% Change
Sales revenue	22,750	22,161	589	2.7
EBITDA ⁽¹⁾	9,584	10,464	(880)	(8.4)
EBIT ⁽²⁾	5,497	6,935	(1,438)	(20.7)
Free cash flow	4,550	5,194	(644)	(12.4)
Dividends declared (cents per share) ⁽³⁾	34	40	(6)	(15.0)

(1) Includes \$542 million of net transformation related costs (excludes depreciation and amortisation related transformation costs).

(2) Includes \$962 million of net transformation related costs.

(3) 2006 includes a 6 cent per share special dividend paid with the interim dividend and 2005 includes two 6 cent special dividends, one paid with interim dividend and one paid with final dividend.



Left to right;

Sol Trujillo
Chief Executive Officer

Donald G McGauchie AO
Chairman

FINANCIALS

The full year results announced on 10 August 2006 were in line with our expectations, with reported earnings before interest and tax (EBIT) declining 20.7% to \$5.5 billion. Before transformation costs, earnings from our normal operations declined 6.9% to \$6.5 billion.

Total income (excluding finance income) grew by 2.9% to \$23.1 billion. Sales revenue grew 2.7% for the year to \$22.8 billion. This included growth of 3.9% in the second half, more than double the first half growth rate. The sales revenue growth was spread across our key strategic revenue drivers:

- Retail broadband revenue grew 58% to \$730 million, driven by strong retail broadband subscriber growth from our competitive broadband marketing initiatives.
- Mobile revenue grew 6.1% to \$5.0 billion, driven by strong subscriber growth – particularly 3G subscribers.
- Sensis revenue grew by 6.9% to \$1.8 billion, driven by a strong performance in Yellow Pages® online and non-metropolitan books and Sensis' emerging businesses.

We are tackling the decline in our fixed line (PSTN) revenues by integrating services, customer win back programs and introducing value based subscription pricing plans. This strategy helped slow the second half decline in PSTN revenues to 5.8% compared with the first half's decline of 7.6%.

Total expenses (before finance costs and income tax) increased by 14.2% to \$17.6 billion, significantly impacted by transformational costs such as restructuring and redundancy expenses and an accelerated depreciation and amortisation expense.

Free cash flow was strong at \$4.6 billion and helped to pay dividends and service our borrowings.

Profit after tax was \$3.2 billion for the year, down \$1.1 billion or 26.2% on the prior year. Telstra's Board of Directors declared a final ordinary dividend of 14 cents per share, fully franked. This brings the total ordinary dividend declared for the year to 28 cents per share, representing a total of \$3.5 billion.

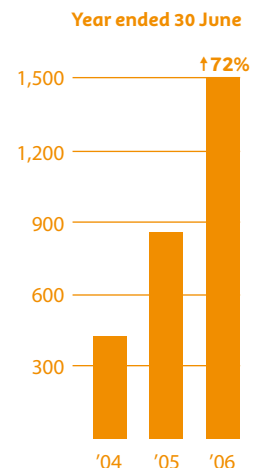
TRANSFORMATION ON TRACK

We are on or ahead of plan on virtually all fronts of our transformation and the building blocks which aim to deliver long term shareholder value are being put in place.

Our one factory approach is already starting to deliver productivity gains by reducing the complexity inside our business and integrating our services. We have already realised over \$150 million in expense savings and around \$500 million in capital expenditure savings. Since 1 July 2005 we have reduced our workforce by 3,859 (excluding the impact of the CSL New World

↑2.7%

Sales revenue increased 2.7% to \$22.8 billion. Revenue growth was due to increases in broadband, mobiles, Sensis, IP solutions and Pay TV bundling, offset by declines in revenue from PSTN, specialised data and ISDN products.



Retail broadband subscribers
Retail broadband subscribers increased 72% in the year, with BigPond adding retail customers at three times the rate of the nearest competitor.

merger in Hong Kong) with savings flowing through into fiscal 2007 and beyond.

Our Market Based Management (MBM) approach is underpinned by sophisticated customer segmentation based on comprehensive research; this has driven much of the second half revenue acceleration in mobiles and broadband. We are using a MBM framework to grow the market, acquire high value customers and gain market share by knowing what customers want.

We have already deployed one third of the new IP MPLS core network. We are on track in building a 3G broadband wireless network to facilitate internet access and video “through the air”. Both of these investments, combined with other network improvements, will increase the desirability of our products and services by offering faster, simpler services with greater coverage.

For further detail on the progress of our transformation please refer to the table on page 4.

WINNING IN THE MARKET

We plan to launch our next generation 3GSM 850 wireless network by early 2007. With initial peak network speeds of 3.6 megabits per second (Mbps) and average speeds of 550 kilobytes per second (Kbps) to 1.1 Mbps or better, 3G will not be limited to mobile handsets. It will be functional through laptops and other handheld devices, opening up substantial new markets and business applications for Australians from the city to the country.

We increased our retail broadband market share by 3 percentage points during the year, closing with 44% market share. We added retail customers at three times the rate of our nearest competitor.

We plan to keep winning in the broadband market, and to further increase our market share in the coming year as we offer a superior value proposition through innovative content. We are integrating our Sensis products such as Trading Post®, CitySearch® and Whereis® across our BigPond® and Telstra mobile products, taking advantage of the scale and scope offered by Telstra’s full product suite. This means that you can, for example, find a restaurant on your computer and get directions to it over your mobile all by using Telstra.

We continued to improve our network reliability and service levels with significant improvement in customer satisfaction and meeting customer service guarantee time frames.

DRIVING LONG TERM SHAREHOLDER VALUE

We are working to grow shareholder value, but this won’t be achieved with quick fixes.

The management and the Board have imposed a real discipline on the business. We are executing the strategy to deliver capabilities like no other telecommunications company anywhere in the world.

Telstra has a number of advantages; we have leading market share, which means we have scale. We have the most complete set of assets. We have fixed, we have mobile, we have broadband, we have Sensis, and we have a partnership in FOXTEL. However, we cannot be certain that the competitive advantage built on the economies of scale that exist will not be eroded by Government policy or regulatory decisions.

On 31 August 2006, we announced the sale of Australian Administrative Services (AAS) – a non-core asset – for \$215 million. At the same time, we purchased a 51% shareholding in SouFun,

Performance on transformation strategy

Our transformation strategy is on track, on time and on budget. The building blocks that aim to deliver long term shareholder value are being put in place. The “under construction” sign is up but the New Telstra is already emerging.

Description

Progress

market based management

Market based management (MBM) is a simple concept that puts the customer at the centre of everything we do. It is based on extensive research that informs us about our customers' needs, priorities and expectations. This knowledge forms the basis of a relationship with our customers around which we organise all our processes. MBM provides a deep knowledge of the customer, so Telstra can actively tailor products and services to customers needs.

- Completed 65,000 interviews with consumer and small business customers
- Restructured organisation around customer segments, with the creation of a dedicated small and medium enterprise (SME) business unit, Telstra Business
- Creation of seven consumer segments and five business segments
- New advertising campaign launched showcasing Telstra's brands – Telstra, BigPond and Sensis
- Launch of subscription based pricing

next generation network (NGN)

We are constructing a state-of-the-art Internet Protocol (IP) Core network. The new network will enable us to offer an array of new services such as broadband internet access many times faster than today's speeds, multi-channel TV delivered over the internet and video conferencing.

The new IP Core platform will be 77 times faster than the existing platform capacity. It will provide users with more reliable and stable media and telephony services and expand dramatically the number and range of services any individual customer can use.

- IP Core network well advanced with one third deployed since 1 July 2005
- Alcatel IP-DSLAM technology tested and integrated into the Telstra network
- In August 2006, we opened the Telstra Integration Laboratory in Melbourne. The laboratory will conduct end-to-end testing of the IP core network and associated new products

national 3GSM 850 wireless network

We are constructing Australia's only national 3GSM 850 wireless network which will reach more than 98% of the Australian population when it is completed. Telstra will operate services over both the GSM and CDMA networks until 2008 when its national 3GSM 850 network provides the same or better coverage. Voice, video and high speed data capabilities over the 3GSM 850 network will exceed those of the existing CDMA network capabilities.

- Nationally, by 30 June 2006 over 60% of the 5,112 sites had equipment installed, with over 80% of transmission lines completed
- First video call on the 3GSM 850 network placed between country Victoria and Sydney

simpler systems

Reduction in the number of business and operational support systems – originally 1,252 systems – by 75% by end of fiscal 2008 and 80% by end of fiscal 2010.

Simpler systems will mean significant improvements to the customer experience via both billing and service improvements. They will also deliver long term cost savings and increased efficiencies for Telstra.

Ten major transformational work programs are in various stages of completion for OSS (operational support systems used to support internal business processes) and BSS (business support systems for customer relationship management, customer care and billing).

- Signed six year contract with IBM to bring together the operation and management of all Telstra's internal IT systems
- Automated end-to-end ordering process for IP products for business and corporate customers
- Negotiated contracts and selected suppliers, including world class vendors such as Accenture, Comverse and Siebel

workforce excellence initiatives

We are equipping our staff with the right skills to build, operate and maintain next-generation networks and better service to customers.

We are investing \$210 million over five years in a new training program for technical, engineering and marketing staff. Telstra has partnered with Accenture to establish the Telstra Learning Academy.

Telstra's technical field workforce is becoming more mobile and responsive to customer needs with new tools and equipment to support operational performance.

We are working towards extending the rostered work hours of technicians to provide service on evenings and weekends, and new systems to permit more work to be performed remotely without requiring customer attendance.

- First students graduated from the Telstra Learning Academy in August 2006
- Deploying Global Positioning Systems (GPS) devices in Telstra vehicles to improve customer service, the safety of our people and the security of our vehicles
- Equipping technical field workforce with the right tools including self-calibrating gas detectors and high-speed wireless modems

a leading real estate and home furnishing web site in China. SouFun provides Telstra an attractive entry point into China, one of the world's fastest growing economies.

REGULATION

It's well known that we are critical of the current telecommunications regulatory regime. Recent decisions by the Australian Competition and Consumer Commission (ACCC) have demonstrated how regulation slows or diverts investments that would otherwise be used to improve our customers' experience. For example, the ACCC issued an Unconditioned Local Loop (ULL) interim determination of \$17.70 per month in band 2 which is well below our national average cost of \$30 per month. Also, the ACCC failed to provide sufficient levels of certainty for Telstra to invest \$3 billion in a proposed fibre-to-the-node (FTTN) broadband network.

However, we accept our obligations under that regime and we will fulfil our disclosure obligations during the Government's sell down process. This will involve continuing to explain the impact of the regulatory regime on the company.

STAFF CULTURE

We understand that to service our most valuable external asset, our customers, and to create value for you, our shareholders, we must invest in our most valuable internal asset – our employees. We are investing \$210 million over five years to equip our technical, engineering and marketing staff with the skills to build, operate and maintain next-generation networks and better serve customers.

ORGANISATION CHANGES

To align the business with our customers we have undertaken some organisational restructuring and made new appointments to the senior management team. We have created three new business units:

- Telstra Business, responsible for serving the unique needs of Australia's small office / home office (SOHO) and small to medium enterprises (SME) with Telstra fixed line, mobiles, broadband, data and online solutions;
- Telstra Operations, responsible for the co-ordination and execution of the company's multi-year business improvement and transformation program, construction and maintenance of the company's infrastructure, product development and operational support; and
- Strategic Marketing, responsible for the co-ordination and delivery of marketing activities across the company and market segments.

Telstra is one of Australia's leading companies in the appointment of women to senior management. Since 2002, the number of women in senior management has almost doubled to more than 20%.

BOARD OF DIRECTORS

During the year we welcomed two new non-executive directors to the Board, Peter Willcox and John Zeglis. Peter is one of Australia's most respected and experienced directors and John brings to the Board enormous insight and experience after a distinguished career in the US telecommunications sector.

During the year John Fletcher resigned from the Board and two of our longest-serving directors, John Ralph and Tony Clark retired. We thank them for their leadership, dedication and contribution to Telstra's development over many years.

SALES OF SHARES BY THE AUSTRALIAN GOVERNMENT (T3)

With regard to the further sale by the Government of its shares in Telstra, the Board and management have always been supportive of the sale and we are very pleased that this will occur. We believe that the T3 sale is in the best interest of Telstra's shareholders, customers and employees and we will work with the Government during the sales process to help ensure its success.

OUTLOOK

We will continue to transform Telstra into a company focused on delivering innovative, value based products, services and solutions to customers.

We are also determined to build sustainable shareholder value and this cannot be done with quick fixes. We will continue to implement our strategy, drive revenue growth and integrate our services to create a 1-click, 1-touch, 1-button, 1-screen, 1-step capability for our customers. We will continue to reduce costs, as we consolidate networks and simplify systems.

We're going to focus on integrating content and delivering differentiated value. We will be competing on more than price, importantly we will be adding value so we differentiate ourselves from our competitors.

The aim of the strategy is to improve the value of the company with a positive impact on the share price performance. But there is at least another year of significant investment required to execute the transformation, with the full transformation taking a further two to four years to execute. As a result, in the next financial year ending 30 June 2007, you should expect to see¹:

- Revenue growth of 1.5% to 2.0%;
- EBIT growth of between 2.0% and 4.0%;
- Underlying EBIT (excluding transformation costs) of between minus 2% to minus 4%;
- Cash operating capital expenditure of between \$5.4 billion and \$5.7 billion; and
- Dividends – intention of the Board to declare fully franked dividends of 28 cents per share in respect of fiscal 2007.²

Given the uncertainty attached to key regulatory outcomes and impacts, the Board is unable to give guidance on dividends for the fiscal 2008 year.

We are rebuilding your company, an iconic Australian company, and laying the foundation for new revenue, improved earnings and cash flow. The Board remains committed to informing you of progress in transforming your company.



Donald G McGauchie AO Chairman



Sol Trujillo Chief Executive Officer

28cps

Intention to maintain a 28 cents per share ordinary dividend in fiscal 2007.

(1) Guidance assumes no FTTN build, a Band 2 ULL price of \$17.70 applying for wholesale customers for the remainder of fiscal 2007, no additional redundancy and restructuring provision and fiscal 2007 being the largest transformational spend year.

(2) Dividend intention is subject to continuing to be successful in implementing the transformation strategy and no further material adverse regulatory outcomes during the course of fiscal 2007.

Risk factors

The journey to the New Telstra is not without significant risks that could affect us all. We face several risks, whether they be regulatory, transformation related or from the general market or operating conditions.

Additionally, some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. Some or all of these could materially adversely affect our business, profits, assets, liquidity and capital resources. These risks should be considered in conjunction with any forward-looking statements in this annual review. The warning regarding forward-looking statements can be found on the inside front cover of this annual review.

1. REGULATORY RISKS

We are subject to extensive regulation that negatively affects our business by limiting our ability to pursue certain business opportunities and the returns we can generate for our shareholders. Intrusive regulation impacts the way Telstra does business and is the most significant ongoing risk to the company. We have not been able to establish any firm position from the Government or regulators as to key future policies and regulatory outcomes. We have little or no confidence that regulatory outcomes will be beneficial, or even fair, to Telstra shareholders. However, we are committed to seeking regulatory reform on behalf of Telstra shareholders.

We face substantial regulatory risks that have, and we expect will continue to have, substantial adverse effects on our business.

Risk	Description	Risk Impact
Access pricing	The ACCC can require Telstra to provide services to its competitors using its networks. In many cases we have disagreed with the ACCC's calculation of our costs of providing those services. The ACCC is yet to issue its final ruling on the prices it will allow Telstra to charge its competitors for various services, including for unconditioned local loop (ULL). Telstra is required by the Government to average its prices for a basic line rental service for all retail customers across Australia. The ACCC will not follow the same principle in setting ULL prices we can charge our competitors to access our network. Instead they have set prices which are low in metropolitan areas and high in regional and rural areas and are well below our estimates of the costs of supply.	Our competitors can target customers in metropolitan areas where access prices are low, leaving us to provide services to some customers in high cost regional and rural areas at the same retail price as in metropolitan areas. The ACCC may reduce access prices further which would adversely affect our revenues, earnings and shareholder returns.
Fibre-to-the-node (FTTN)	This year, we invested many months in discussions with the ACCC working towards a solution where Telstra would build a FTTN network. This network would have provided Australia with high speed broadband much further from our exchanges than the current network will allow. But we disagreed with the ACCC on the real costs of building and maintaining our network and on the price our competitors would pay for access to the network. We need to earn a competitive rate of return when we invest shareholder money, and when we can't, we won't invest.	FTTN is an example of how we are and could be exposed to significant limitations and costs in relation to our current and future activities. This may make it prudent not to engage in some business activities or to delay or defer capital projects. These regulatory risks could therefore have an adverse effect on the returns we can generate for our shareholders and could benefit our competitors.
Mandated access to Telstra networks	A key part of our transformation strategy involves building a new, nationwide wireless (3GSM 850) network. The ACCC may hold a public inquiry at any time into whether compulsory competitor use of this network should be allowed.	If the ACCC allows competitors to access our new 3GSM 850 wireless network, this would deprive us of the benefits of the unique coverage of the network and could materially adversely affect our business and shareholder returns. As happened with FTTN, this may undermine our commercial incentives to continue to invest in the 3GSM 850 wireless network, for example, to upgrade it with future technologies that would increase data speeds.
Conduct regulation	The ACCC claims that by Telstra raising our basic access prices to our competitors to allow a greater recovery of our estimated costs we have acted in an anti-competitive manner in breach of the Trade Practices Act.	The ACCC may take us to the Federal Court for this alleged breach, and the maximum potential penalties which had accrued as at 31 August 2006 exceeded \$380 million and are accruing at \$3 million per day. Optus has issued proceedings in the Federal Court in the same matter. We will vigorously defend the proceedings on the basis that we have not acted anti-competitively and should like any company be allowed to move our prices closer to our costs. The ACCC may in future regard other Telstra conduct, such as refusal to supply particular services to its competitors, as a breach of the Act. Telstra will defend its right to act in what it believes to be a normal commercial manner.
Wide regulatory discretion	The Minister for Communications has a broad power to impose and vary licence conditions on Telstra. For example, the operational separation provisions place an additional burden on Telstra with numerous restrictions imposed on the way we run our business. In addition, Telstra is subject to retail price controls and is obliged to make certain uneconomic services available in rural and remote areas without receiving a fair contribution to its costs from its competitors.	The real risk with operational separation lies in the power of the Minister to by-pass the Board and management to dictate the way Telstra conducts its business. The wide regulatory discretions could be used with a significant adverse effect on Telstra.

2. TRANSFORMATION STRATEGY RISKS

We may not succeed in implementing our transformation strategy or the strategy may not achieve the expected benefits.

We have invested substantial capital and resources in the development, streamlining and modernisation of our networks and systems and have embarked on a substantial transformation of the company. However, we may be required to incur significant capital expenditures in addition to those already planned in order to remain competitive. Further, transformation may not be an adequate solution to the ever present operational, competitive and technological risks.

Issue	Description	Risk Impact
Scale of transformation	The transformation strategy impacts all of our businesses, key systems and processes. It represents a complex and fundamental change in the way we do business and requires large-scale customer migration as old networks and systems are replaced. Our transformation strategy is, in our view, the largest of any telecommunications company worldwide. There is a significant risk that we may not be successful in the implementation of our transformation strategy.	The expected benefits of our transformation strategy may not be achieved or may be delayed, with a risk that we will lose market share and profitability. In addition, we face other risks in executing our transformational strategy, including: <ul style="list-style-type: none"> our planned technologies and systems do not function as anticipated; customer acceptance and take up of our new product and service offerings and our planned large-scale customer migration to new platforms are significantly less than planned; we may face extended delays and other execution problems in implementing our transformation strategy, which as of yet is commercially unproven on the scale we are seeking to achieve; and our actual capital and operating costs turn out to be substantially greater than those budgeted.
National 3GSM 850 wireless network	Our 3GSM 850 wireless network is being rolled out in Australia under an aggressive timetable which has not previously been achieved anywhere on this scale.	Failure to successfully build and market our new 3GSM 850 wireless network may have a material adverse impact on our earnings. Risks include: <ul style="list-style-type: none"> the network may take longer than expected to, or may not, reach targeted functionality; customers may not be willing to pay for some of the value added services that the new network can provide; competitors may in time offer similar services and capabilities; and suitable handsets may be unavailable.
Key personnel	The success of our transformation strategy is highly dependent on key personnel at Telstra. Our CEO and a number of key members of his senior management team have joined the company within the last eighteen months and bring with them extensive telecommunications expertise.	A loss of one or more of these key executives, in particular the CEO or COO, could have a material adverse impact on the Company's ability to achieve the transformation strategy and consequently the Company's market share and profitability. Also, there is a risk that if the CEO were to leave Telstra one or more of the overseas executives he has recruited may also leave.
Retaining and attracting skilled and experienced people	As technology evolves we will need to attract, retain and train our workforce.	Relevant skills may be in short supply worldwide and could impact our ability to remain competitive.

3. MARKET / OPERATING RISKS

Aside from the regulatory and transformation risks, we face general market and operating risks. These risks may arise from changes in economic conditions both in Australia and the world, actions by our competitors and changing consumer trends.

Issue	Description	Risk Impact
Continued decline in high margin fixed line products and services	Our traditional fixed line (or PSTN) revenues declined by 6.7% in fiscal 2006 and are expected to continue to decline because of increasing competition, substantial regulatory impacts and the continued development of technologies that are able to offer increasingly viable alternatives to our PSTN services - such as mobiles and broadband services. This is a global trend and is expected to continue. PSTN revenues comprise a significant portion of our revenues and provide high margins and strong cash flows that enable us to invest in and develop our business.	The decline will continue and may accelerate. If we are unable to arrest the rate of decline, manage costs and grow alternative revenue sources in newer lower-margin products and services such as mobiles and broadband, our earnings and shareholder returns could be materially adversely affected.
Rapid technology change and convergence of traditional telecommunications markets	Rapid changes in telecommunications and IT are continuing to redefine the markets in which we operate. These changes are likely to broaden the range and capabilities and reduce the costs of infrastructure capable of delivering these products and services, leading to greater competition. We are responding through the modernisation of our networks, including building the new nationwide 3GSM 850 wireless network.	Future technology and market changes may create the need for other network changes at considerable cost to the Company.
Competition	<p>Although the overall Australian telecommunications market has experienced growth, we have lost substantial market share in some key markets as a result of aggressive price competition, the development of new technologies and increased regulatory action. As a result, we have lowered the prices of our products and services. We have also implemented strategies to better understand our customers and concentrated on delivering diverse products and services to remain competitive.</p> <p>The Commonwealth Government has announced an \$878 million scheme to subsidise internet service providers to supply broadband services in regional, remote and rural Australia.</p>	<p>We expect vigorous price competition to continue with competitors marketing aggressively to our high-value customers. The continued loss of market share or downward pressure on prices would have an adverse effect on our financial results.</p> <p>The Commonwealth Government scheme is likely to increase facilities-based competition in regional, rural and remote Australia.</p>
Joint investments	We are in joint control of some of our businesses like FOXTEL, Reach, our Hutchison network sharing partnership (3GIS), CSL New World and SouFun.	Certain key matters in these businesses require the agreement of our partners. This may negatively affect our ability to pursue our business strategies.
Network and system failures	Our networks are vulnerable to extreme weather, cable cuts and intentional wrongdoing. Hardware or software failures and computer viruses could also affect the quality of our services. Major customer requirements could be in excess of our capacity to supply.	Any of these occurrences could result in customer dissatisfaction and compensation claims as well as reduced revenue and earnings.
Future Fund as a substantial shareholder	<p>The Commonwealth has announced its intention to proceed with T3 - the sale of in the order of A\$8 billion of our shares to retail and institutional investors in October and November 2006. The Commonwealth will transfer the balance of its Telstra shares to the Future Fund. The Future Fund will have a substantial shareholding in Telstra which it will be free to sell after 24 months as it sees fit.</p> <p>The Commonwealth may also issue directions to the Board of the Future Fund in relation to Telstra shares held by the Future Fund, including specifying how voting rights relating to the shares are exercised.</p>	<p>An anticipated sale by the Future Fund of large amounts of shares could reduce the prevailing market price for our shares, and could negatively impact the timing and effectiveness of our capital raising activities which could have an adverse impact on our cost of capital.</p> <p>There is a risk that the Commonwealth could use its directions power to vote the Telstra shares held by the Future Fund to pursue Government objectives. There is also a risk that the interests of the Future Fund and / or Commonwealth may not be aligned with the interests of other shareholders, and the Future Fund could take actions that are not in the best interests of our shareholders.</p>

Financial review

The full year result was at the better end of the earnings guidance. Sales revenue growth was strong. Costs and earnings were impacted by transformation costs and increased competition. The fiscal 2007 year will be the highest spend year for our transformation.

- Earnings decline as expected, EBIT down 20.7% to \$5.5 billion and underlying EBIT down 6.9% to \$6.5 billion.
- Profit for the year declined 26.2% to \$3.2 billion.
- Total income increased 2.9% and sales revenue increased 2.7%.
- Second half sales revenue up 3.9%.
- Retail broadband revenue up 58%, mobiles revenue up 6.1% and Sensis revenue up 6.9%.
- PSTN revenue decline slowed in the second half, down 6.7% for the year.
- Operating expenses were up 13.8%; excluding transformation costs operating expenses were up 9.2%.
- \$962 million of net transformation costs all incurred in second half.
- Free cash flow strong at \$4.6 billion.
- Final ordinary dividend of 14 cents per share, bringing total ordinary dividends declared to 28 cents per share.
- Basic earnings per share decreased to 25.7 cents per share due to lower profit in the year.

The financial year was a story of two halves. The first half was characterised by modest sales revenue growth of 1.5% and a decline of 7.0% in earnings before interest and tax (EBIT). In the second half sales revenue grew 3.9% due to competitive offers, but transformation related costs along with costs to drive revenue growth pushed expenses higher, causing EBIT to decline 37%.

Over the financial year EBIT declined 20.7%, in line with our expectations of a 21% to 26% decline. Excluding all transformation related costs, EBIT declined 6.9% to \$6.5 billion.

Sales revenue increased by 2.7% to \$22.8 billion. Domestic sales revenue increased by 2.2% to \$21.0 billion.

Sales revenue grew 3.9% in the second half following continued growth in broadband, mobiles and Sensis. To stabilise the decline in fixed line (PSTN) we introduced new product plans tailored to specific customer segments.

Operating expenses (before finance costs, income tax expense and depreciation and amortisation) increased by 13.8% to \$13.5 billion. Excluding transformation costs of \$542 million, operating expenses were up 9.2% to \$13.0 billion.

We continue to maintain a strong **balance sheet** with net assets of \$12.8 billion.

Our **free cash flow** generation, that is, cash from operating activities less cash used in investing activities, remains strong at \$4.6 billion from \$5.2 billion in the prior year.

We have declared a final fully franked ordinary **dividend** of 14 cents per share, bringing ordinary dividends per share declared for fiscal 2006 to 28 cents per share. Total dividends paid in fiscal 2006 amounted to 40 cents per share.

OUTLOOK *

The fiscal 2007 year will be the largest transformational spend year.

We expect first half earnings to decline between minus 17% to minus 20%, but the declines will be more than offset in the second half. This variation in performance from first half to second half is purely a result of timing changes and not underlying business performance. For example, first half fiscal 2007 will include transformation costs unlike the first half of 2006, and the second half of fiscal 2007 will include the recognition of the Melbourne Yellow Pages print revenue, previously recognised in the first half.

For the full fiscal 2007 year we expect EBIT to increase by plus 2% to plus 4% and we intend to pay a fully franked ordinary dividend of 28 cents per share.

* Guidance assumes no FTTN build, a Band 2 ULL price of \$17.70 applying for wholesale customers for the remainder of fiscal 2007, no additional redundancy and restructuring provision and fiscal 2007 being the largest transformational spend year.

REVENUE

Broadband continues to deliver strong revenue growth. Retail broadband revenue grew 58% to \$730 million driven by subscriber growth of 72%, taking total retail subscriber numbers to 1.5 million. Retail market share jumped 3 percentage points to 44%.

Wholesale broadband revenue was up 77% to \$461 million driven by strong subscriber growth of 61% to 1.4 million.

Mobile revenue increased 6.1% largely due to increased sale of mobile handsets, data traffic, international roaming and mobile interconnection revenues. 3G and Blackberry customers made a significant contribution to the 26% increase in mobile data revenues, with:

- over 3 billion SMS messages, up 32%;
- 20.2 million MMS messages, up 81%; and
- non SMS data revenue up 121%, as Blackberry subscribers increased 84%.

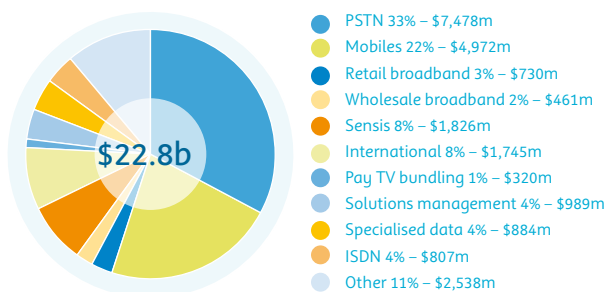
Sensis sales revenue increased 6.9% to \$1.8 billion, growing 9% in the second half, compared to 5.3% growth in the first half. The second half revenue growth was led by Yellow Pages online and regional print directories.

Yellow Pages revenues grew by 5.8% to \$1.2 billion, with print revenues growing by 2% to just over \$1 billion, while Yellow Pages online revenue grew 54% to \$124 million. White Pages revenues grew by 12% to \$302 million, driven by strong performances from both print and online.

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

PSTN revenue declined 6.7% to \$7.5 billion. PSTN revenue declined 7.6% in the first half. We have slowed this to 5.8% in the second half. There has been a general reduction in PSTN volumes and yields have declined due to competitive pricing pressure and continuing customer migration to other products.

Sales revenue



EXPENSES

Selected items from income statement

Year ended 30 June	2006 \$m	2005 \$m	%
Labour	4,364	3,858	13.1
Goods and services purchased	4,730	4,211	12.3
Other expenses	4,427	3,815	16.0
Total operating expenses	13,521	11,884	13.8
Depreciation and amortisation	4,087	3,529	15.8
Total expenses	17,608	15,413	14.2

Labour expense grew 13.1% to \$4.4 billion due to:

- redundancy expense of \$348 million, split between normal course of business redundancy costs of \$178 million and current year transformation related redundancy costs of \$170 million. These costs were associated with the reduction of our workforce by 3,859 staff (excluding the impact of the CSL New World merger in Hong Kong); total workforce now 49,443;
- \$186 million included in the overall restructuring and redundancy provision associated with making a further 2,600 staff reductions over the next two years; and
- excluding redundancy costs, labour expense was up 1.7% mainly due to salary increases.

Goods and services purchased grew 12.3% to \$4.7 billion due to:

- cost of goods sold increased driven by mobile marketing campaigns;
- mobile handsets subsidies increased as we compete aggressively in the market; and
- network payments increased driven by volume increases of domestic mobile and SMS terminating on other carriers' networks.

Other expenses grew 16.0% to \$4.4 billion. Excluding transformation related costs, other expenses grew 12.5% to \$4.3 billion. The main drivers of other expenses include:

- maintenance costs associated with the existing 3G network;
- higher consultancy costs due to transformation activities;
- increased market research due to a focus on understanding customer needs; and
- costs associated with property rationalisation, cancellation of server leases, and the decommissioning of certain IT platforms and operational and business support systems.

Depreciation and amortisation costs grew by 15.8% to \$4.1 billion as we have accelerated depreciation and amortisation on our CDMA network, switching systems, certain business and operational support systems and related software totalling \$422 million. Excluding accelerated depreciation and amortisation the increase would have been 3.9%.

BALANCE SHEET

Selected items from balance sheet

As at 30 June	2006 \$m	2005 \$m	Change \$m
Current assets	4,879	5,582	(703)
Property, plant and equipment	23,622	22,891	731
Total non current assets	31,296	29,629	1,667
Total assets	36,175	35,211	964
Total liabilities	23,343	21,553	(1,790)
Net assets/Equity	12,832	13,658	(826)

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

- a \$731 million increase in property, plant and equipment, following assets acquired in the CSL New World Mobility merger and additional capital expenditure on our transformation, offset by depreciation expense;
- a \$782 million increase in superannuation assets following recognition of actuarial gains on the Telstra Superannuation Scheme; offset by
- an \$859 million decrease in cash and cash equivalents to pay dividends and interest on our borrowings.

The increase in total liabilities of \$1.8 billion was due to:

- a \$930 million increase in total borrowings to fund our various working capital and business requirements as part of transformation and two special dividend payments; and
- an increase of \$860 million in other liabilities, such as trade and other payables following additional accrued expenditure in the rollout of the wireline and wireless networks and IT systems.

CASH FLOW

Selected items from cash flow statement

Year ended 30 June	2006 \$m	2005 \$m	Change \$m
Net cash provided by operating activities	8,562	8,960	(398)
Capital expenditure	(4,303)	(4,129)	(174)
Free cash flow	4,550	5,194	(644)

The decline in free cash flow to \$4.6 billion was due to:

- a \$234 million decline in cash flow generated by our core business following the decline in our fixed line revenues and higher levels of expenditure as we commenced our transformation in the second half and increased marketing activity to drive revenue;
- a \$164 million increase in tax paid during the year due to an instalment rate correction by the Australian Taxation Office; and
- a \$246 million increase in investing cash flows generated mainly as a result of increased spend on building and upgrading our networks and systems to improve the customer experience as a result of our transformation.

We predominantly used our free cash flow to:

- pay dividends to our shareholders of \$4.9 billion, representing 40 cents per share (this included two special dividends totalling 12 cents per share); and
- pay finance costs of \$940 million to our debt holders.

These payments totalled \$5.9 billion, \$1.4 billion higher than our free cash flow. This excess was funded mainly by an increase in our net debt (borrowings less cash on hand) of \$1.3 billion.

Transforming Telstra is a journey for us all

The journey to the New Telstra is a shared journey across all levels of the organisation. All of Telstra's workforce are working hard to transform your company. We have launched a new vision and new cultural priorities across the organisation, all focused on improving the customer experience.

We are aiming to give customers a personalised, seamless experience that makes it easy for them to do what they want, when they want. We are listening to our customers; gone are the days when we told customers what they wanted.

We are empowering our people, we are competing to win and have a renewed philosophy that anything is possible. The stories over the next few pages will help demonstrate the real dedication and commitment of our employees as we continue our transformation to the New Telstra. These stories reflect the energy and focus of employees across the entire organisation.

We hope you find their stories enlightening.



“We are better equipped to recognise the unique needs of our current and future customers to ensure we deliver a superior service that they value.”

Margarita Caltieri Commercial Manager, TC&C

“Thanks to our segmented model, we can now deliver a differentiated customer experience for each customer group.”

Aisling Bannan Strategy Manager, TC&C

market based management

CUSTOMER BENEFITS

- provide customers with the products and services that are meaningful to them and complement their lifestyle
- offer products, services and applications to customers that are simple, intuitive, easy to use and accessible with one click

Aisling and Margarita work in the Consumer Marketing and Channels (TC&C) business unit. They have been heavily involved in implementing market based management since its launch in November 2005 as part of the CEO's strategic and operations review.

Telstra is increasingly moving to offer customers needs based business and lifestyle packages leveraging Telstra's full services product capability. This shift is being enhanced by the introduction of market based management to enable Telstra to better understand the range of needs and wants of its business and consumer customers.

We have undertaken extensive customer research, already completing 65,000 interviews. This level of research allows Telstra to differentiate itself from all competitors by creating offers that are relevant to the lifestyle of the individual segments. As a direct result of this research we have created seven consumer segments and five business segments and started to launch new offers into the market.

We launched subscription based pricing offers across the popular HomeLine® fixed line (PSTN) products, a direct result of listening to our customers.

Aisling and her segment launched 'My Prepaid Online'. "Our research insights told

us that younger customers in particular like to manage their services online. To address this we delivered 'My Prepaid Online' where customers can gain online access to a self service portal where they can recharge, view usage history, change offers and set alerts," Aisling said.

With the creation of new segments, we have realigned our organisation with our customers. Margarita and her team have changed the management reporting and analysis to align with these new segments. "We now have the detail to make more informed decisions on products and services we offer to our customers," Margarita said.



“We have completed the first phase of the core implementation on time and on budget.”

Kerby Lyons, General Manager,
Core Networks, Telstra Operations

“Having an in depth understanding of our customers’ businesses allows us to drive solutions to meet their needs and solve their problems.”

Paul Bolton, Account Director, TE&G

next generation network

CUSTOMER BENEFITS

- more reliable and robust core network
- simpler and more consistent user experience
- enables Telstra to offer new and innovative products and services, including IP telephony, video on demand, voice over broadband and BigPond services

Kerby is General Manager of Core Networks and is responsible for the network architecture, testing, implementation and platform management of the Next Generation Network (NGN) – which includes IP-MPLS Core, Multi-Service Edge and Broadband Network Gateway. Paul is an Account Director with Telstra Enterprise and Government (TE&G). He works with one of Telstra’s largest customers, Australia Post, to deliver solutions to align with its business needs across our product portfolio of voice, data, mobiles and services.

The new IP Core platform will be 77 times faster than the existing platform capacity. It will provide users with more reliable and stable media and telephony services and expand

dramatically the number and range of services any individual customer can use.

“We will improve network performance by simplifying the existing network, removing legacy equipment and single points of failure, reducing operational complexity while introducing technology that supports new services,” Kerby said.

The NGN project will improve the customer experience by enabling the provision of multi-media services. The modernisation of networks will further differentiate us from competitors, particularly in providing real value to our corporate customers.

Many of our corporate customers have already adopted IP technology. We are committed to leading the migration of corporate customers to the new IP world through providing integrated solutions and services.

“The new network will allow corporate customers to design their business processes and applications much more with the outcome in mind rather than having to make ‘allowances’ for networks,” Paul said.

In August, Telstra opened the Telstra Integration Laboratory. The laboratory will conduct end-to-end testing of the IP network and associated new products, enabling their smooth integration into Telstra’s network.

“Customers from outback Australia and in the capital cities will have access to the latest mobile network features, services and products including wireless broadband, content downloads and video calls.”

Vince Boffa Technology Infrastructure Manager,
3GSM Development, Telstra Operations



national 3GSM 850 wireless network

CUSTOMER BENEFITS

- improved breadth and depth of coverage
- wider range of services
- faster data speeds and wireless broadband access
- global roaming

Vince is the Technology Infrastructure Manager – 3GSM Development within the Engineering and Operations Wireless group. He is responsible for the technology associated with the 3GSM Development projects, focusing on the delivery of Telstra's new 3GSM 850 wireless network.

Vince and the 3GSM 850 team are on track to deliver the new 3GSM 850 network, including the new 3GSM 850 common core network. The common core network will be more reliable and have more capacity for both 2G and 3G customers. All of Telstra's existing base-station sites are being

upgraded to the new 3GSM 850 technology. In addition to the existing base stations, we are rolling out an additional 200 new 3GSM 850 base stations.

Nationally, by 30 June 2006, over 60% of the 5,112 sites had equipment installed, and over 80% of the transmission lines are complete. Once completed the new network will provide 3G services, covering 1.6 million square kilometres and 98% of the Australian population.

“Telstra's investment in this new technology will reduce operating costs, improve network reliability and increase Telstra's

competitiveness by providing a great value proposition for customers,” Vince said.

The 3GSM 850 network will deliver peak network speeds of 3.6Mbps at launch, increasing to 14Mbps by middle calendar 2007. The 3GSM 850 service will provide a much faster customer experience, whether it's for mobile users or wireless laptop users.

The current 3GSM 850 rollout is one of the fastest rollouts in global history, delivering our 3G vision.

“Simplifying our systems, networks and products will reduce costs and make it easy for our customers.”

David Mason, Products Lead Transformation Project, Telstra Wholesale

simpler systems

CUSTOMER BENEFITS

- improved customer service
- integrated services
- consistent customer experience across the range of Telstra products

David is the Product Lead for Telstra Wholesale on the transformation project, and his key focus is to drive change in how products are defined in the new systems and capturing product impacts from network rationalisation.

Wholesale is leading the way in simplifying systems, by further developing the online ordering, billing and maintenance systems.

“One of the key drivers of the transformation is to simplify our systems which will streamline and optimise how we do business with our customers,” David said.

We are also transforming the way we communicate, support, serve and bill our retail customers. The current systems are complex, and our consultants can use up to 7 different systems, and up to 80 different screens to handle a customer request. We are dramatically simplifying our systems and providing our employees a single system view of customers. Every interaction we have with customers will be simpler, better and faster. We will give our customers a seamless user experience in a 1-click, 1-touch, 1-button, 1-screen, 1-step way.

We have signed contracts with key vendors, and our analysis shows a higher

percentage of our customer care and billing requirements can be met through ‘out of the box’ solutions. This means low levels of modification and a reduction in the overall cost of ownership.

Our investment in IT transformation and training will improve the customer experience and deliver the next wave of reductions to our front line functions as we further improve productivity through reduction in complexity and duplication.



“We are working towards a more flexible workforce that is better equipped to serve and satisfy our customers’ busy lifestyles.”

Kerry Davut Senior Alerts Consultant Telstra Operations

workforce excellence initiatives

CUSTOMER BENEFITS

- flexible work hours, aligned to customers’ changing lifestyles
- improved customer service

Kerry works as a senior alerts consultant in the workforce management group. Her main role is to act as a facilitator to ensure a smooth transition of communication between people within the workforce management and wider delivery management team in Telstra Operations business unit.

We are partnering with Accenture Learning, a global leader in the delivery of learning services to establish the Learning Academy. We are investing \$210 million over five years in training.

Telstra is undergoing a major transformation with the introduction of many new products and advanced technologies. The academy will equip technical and engineering staff

with the right skills to build, operate and maintain next generation networks.

The academy is a very important initiative in terms of the company’s transformation efforts as we endeavour to create speed and improve our relationships with customers – at every level. The first group of students graduated from the Telstra Learning Academy in late August.

“Simpler and automated work allocation systems will enable field staff to better meet customer appointments within the allocated time frames,” Kerry said.

We recognise our customers have busy lifestyles, and they shouldn’t have to adjust their timetable to fit in with Telstra’s. So we

are working towards extending the rostered hours of our technicians to provide service on evenings and weekends.

In addition, we are looking at new systems that will allow more work to be carried out remotely, without the need for a technician to attend the customer’s premises.

We are committed to ensuring our technicians are one of the best equipped, enabled and trained workforces. One of our key initiatives is the installation of Global Positioning System (GPS) devices in our operational vehicles. GPS will provide the platform for a number of system enhancements to drive improved customer service and efficiency.

Regulating Telstra is an issue for all of us

Regulations significantly diminish shareholder value by increasing Telstra's costs and reducing the opportunity for Telstra to earn revenue and grow, and undermine the development of a sustainably competitive and financially healthy industry. We face substantial regulatory risks in our business which have had, and we expect will continue to have, a significant adverse effect on our operations and financial performance. This is an issue with which management is seriously concerned and committed to seek reform on behalf of Telstra shareholders.

Regulation

The regulatory environment is the one disappointing aspect of the past year. The Australian Competition and Consumer Commission (ACCC) recently expanded the scope of and extended for a further three years mandated competitor access to our fixed network and has indicated access prices which are well below our estimates of the costs of supply. This regulation slows or diverts investment that would otherwise be used to improve our customers' experience, earn a competitive return for shareholders and provide infrastructure and advanced services that Australia needs to be globally competitive.

We have set out the main regulatory issues that impact on Telstra in the following matrix.

Issue

unconditioned local loop (ULL)

ULL is the use by our competitors of copper wire that runs between a customer's premises and the Telstra exchange. The copper wire forms part of Telstra's copper access network which Telstra is responsible for maintaining, including rectifying any faults on the network.

operational separation

Under legislation introduced in September 2005, Telstra is required to prepare an operational separation plan and if we breach that plan and do not follow a rectification plan, Telstra can be subjected to fines of up to \$10 million.

The legislation allows the Minister for Communications to determine the contents of the plan and any rectification plan.

competition rule

Telstra must not engage in anti-competitive conduct in breach of the competition rule.

fibre-to-the-node (FTTN)

As part of the transformation strategy announced in November 2005, Telstra announced plans for an extensive fibre-to-the-node (FTTN) network, which would provide high speed broadband services widely throughout Australia.

national 3GSM 850 wireless network

We announced in November 2005 our 3G network plan to build a single, super fast national 3G wireless network using the 850Mhz frequency.

	Description	Progress
	<p>The ACCC advocates 'geographically de-averaged' ULL prices. This means competitors pay lower rates for access to copper wire in metropolitan areas (Band 2) than in regional or country areas. This encourages our competitors to offer services in profitable metropolitan areas with little or no regard to regional Australia, which is left for Telstra to service at considerable cost. The ACCC has over time reduced the prices it believes Telstra should charge for ULLs.</p>	<p>In December 2005, Telstra submitted an undertaking with a single national average price of \$30 per month. This undertaking was rejected by the ACCC in August 2006. Telstra has appealed the decision to the Australian Competition Tribunal.</p> <p>In August 2006, the ACCC issued decisions in several disputes between us and our competitors setting an interim price of \$17.70 per month in Band 2. This lead us to revise downwards our earnings forecast for fiscal 2007.</p> <p>Telstra has received the same outcome for the remaining interim determinations.</p>
	<p>The legislation provides extensive powers to the Minister for Communications to dictate the structure of our business.</p>	<p>The plan accepted by the Minister places additional burdens on us with numerous restrictions on the way we run our business. The real risk lies in the power of the Minister to by-pass the Board and management to dictate the way Telstra conducts its business.</p>
	<p>In December 2005, Telstra increased its prices for fixed line access provided to competitors to allow a greater recovery of the average costs of providing that access. The ACCC considers this conduct to be a misuse of market power. A competition notice was issued against Telstra in April 2006, exposing the company to potentially significant fines if the ACCC position is upheld in Court. The maximum potential penalties which had accrued at 31 August 2006 exceed \$380 million and are accruing at \$3 million per day.</p>	<p>ACCC enforcement proceedings are yet to commence.</p> <p>Optus has issued proceedings in the Federal Court which, in part, rely on the competition notice and seek damages, a refund and an injunction preventing us from charging the increased prices and recovering more of our costs.</p> <p>Telstra will vigorously defend what it believes to be normal commercial behaviour.</p>
	<p>FTTN was subject to obtaining a reasonable regulatory outcome from the ACCC including guarantees about what services would have to be provided to competitors and how much they would be required to pay.</p>	<p>No such outcome was achieved, and accordingly in August 2006 we announced that we would not invest in an FTTN network until we were satisfied that our costs would be recognised (especially those we incur in providing services to rural, regional and remote Australia). This has deprived Telstra of substantial operational savings and incremental revenues and deprives Australia of the significant benefits of widespread high speed broadband services.</p>
	<p>This investment is being made in a highly competitive market but the ACCC has the power to mandate a mobile roaming service for our competitors to use our network. Such declaration would deprive Telstra of a unique coverage claim despite it alone having invested the capital necessary to make that claim.</p>	<p>In April 2006, Telstra sought urgent Government clarification on regulation of its 3GSM 850 network.</p> <p>The Government has said this is a matter for the ACCC but notes the extent of competition in this area. The ACCC has stated it will monitor developments in the roaming market to decide if access should be mandated.</p>

Senior management team and executive officers



1. Bruce Akhurst – LLB, BEc (Hons)

Group Managing Director Telstra Media Services & CEO, Sensis
Bruce Akhurst is the Group Managing Director of Telstra Media Services and Chief Executive Officer of Sensis. Bruce also has management responsibility for our digital media strategy, which includes our 50% interest investment in FOXTEL. In March 2005 Bruce was appointed Chairman of the FOXTEL board. Prior to his appointment as CEO of Sensis, Bruce was Group Managing Director Telstra Wholesale, BigPond® and Media Services and he also headed our Legal and Company Secretariat group and was Telstra's Group General Counsel. Bruce joined Telstra as General Counsel in 1996 and became Group Managing Director in 1999. Before joining the Company, he was the Managing Partner at a national law firm. He has an Economics degree with Honours, as well as his legal qualification.

2. Geoff Booth

Group Managing Director, Telstra Country Wide

Geoff Booth was appointed Group Managing Director of Telstra Country Wide on 1 January 2006 after a 33-year career with Telstra. He served as a Regional Managing Director of Telstra Country Wide since its formation in June 2000, with responsibility for whole-of-business performance in Western Australia, South Australia (for all areas outside Perth and Adelaide) and the Northern Territory. Before moving to Telstra Country Wide, Geoff was National General Manager Business and Government – Energy and Resources, responsible for the sales force that account-managed Telstra's largest customers in this sector. Between 1986 and 1990 Geoff was Commercial Business Manager for Western Australia, South Australia and the Northern Territory, responsible for sales and marketing activity in the region.

3. Phil Burgess – PhD

Group Managing Director, Public Policy and Communications

Phil Burgess was appointed Group Managing Director, Public Policy & Communications on 15 August 2005. Phil has a long record of leadership in public policy and communications with broad experience as an academic, business executive, media commentator and writer on economic, political and cultural trends in the US and around the world. Prior to his appointment with Telstra, Phil has served most recently as president & chief executive of the National Academy of Public Administration in Washington, D.C. Phil also served as President of the Annapolis Institute, a U.S. think tank established in 1993 to help leaders manage change - at every level in both the public and private sectors. Phil also serves as a Visiting Professor of Policy Studies at UCLA's public policy school, where he teaches in the graduate program on communications and culture.

4. Andrea Grant – BEd, DipTch

Group Managing Director, Human Resources

Andrea Grant was appointed Group Managing Director, Human Resources on 31 October 2005. Andrea joined Telstra from GM Holden where she was Executive Director, Human Resources; a position she held since 2001. Before joining GM Holden, Andrea was Human Resources Director of Merck, Sharp & Dohme (New Zealand) Limited. Andrea began her career in human resources in 1984 and has over twenty years experience in the field, working in both Australian and global businesses. Andrea holds a Bachelor of Education Degree and a Post Graduate Diploma in Teaching. In addition she is a graduate of the London Business School's Advanced Development Programme.

5. Holly Kramer – BA(Hons), MBA Mktg (Hons)

Group Managing Director, Telstra Product Management

Holly Kramer is the Group Managing Director, Telstra Product Management. Most recently, Holly held the role of Managing Director of Products, Wireless & Mobility, where she was accountable for the development and lifecycle management of Telstra's wireless and mobility products and networks. In her previous position as Chief of Marketing for Telstra Retail, Holly was accountable for the strategic direction and implementation of marketing plans for the consumer and business markets. Before joining Telstra, Holly was General Manager of Marketing and Communications at eCorp. Prior to that, she spent three years as General Manager of Marketing with Ford Australia and five years in various marketing management positions with Ford Motor Company, USA. Holly has a BA (Hons) from Yale University and an MBA Mktg (Hons) from Georgetown University. She is Chair of the Australian Mobile Telecommunications Association (AMTA) and sits on the Boards of mNet Corporation and TelstraClear Limited.

6. Kate McKenzie – BA, LLB**Group Managing Director, Telstra Wholesale**

Kate McKenzie was appointed Group Managing Director, Telstra Wholesale on 16 January 2006. Kate joined Telstra in August 2004 as head of Telstra Regulatory. Within a year she was promoted to the role of Deputy Group Managing Director, Public Policy and Communication. Prior to joining Telstra, Kate was Director General of the NSW Department of Commerce. She previously held positions as the Director General of the NSW Department of Industrial Relations, General Manager of the WorkCover Authority of NSW, and Deputy Director General of the NSW Cabinet Office. During her career, Kate has been involved in the development and implementation of competition policy, energy reform, corporatisation and privatisation and Commonwealth/State negotiations on a range of complex policy issues. Kate holds a Bachelor of Arts/Bachelor of Laws from the University of Sydney.

7. Justin Milne – BA**Group Managing Director, Telstra BigPond**

Justin Milne was appointed Group Managing Director of BigPond® in December 2005, following three years as BigPond® Managing Director. He is responsible for driving the growth of BigPond's® brand and Telstra's internet content. Under his direction, BigPond® has led the market in developing online content and applications. These efforts have been recognised with several national awards including the 2005 "best ISP" award at the Australian Telecom Awards. Prior to his career at Telstra, Justin was CEO of OzEmail, formerly Telstra's biggest ISP competitor, and Managing Director of the Microsoft Network in Australia. Justin is a former board member and past president of the Internet Industry Association. He holds a Bachelor of Arts from Flinders University.

8. David Moffatt – BBus (Mgt), FCPA**Group Managing Director, Telstra Consumer Marketing & Channels**

David Moffatt was appointed Group Managing Director of the Consumer & Channels from 1 October 2003. The group's activities encompass the provision of the full range of telecommunication products, services and communication solutions to consumer customers in Australia. The group also manages the mass market channels including inbound and outbound call centres, Telstra shops and Telstra dealers. David joined Telstra in February 2001 as Chief Financial Officer and Group Managing Director, Finance and Administration. Prior to joining Telstra, David was Chief Executive Officer General Electric, Australia and New Zealand and CEO of GE Capital in Australia and New Zealand. He joined General Electric in 1991. A graduate of Queensland University of Technology, with a Bachelor of Business (Management) David received the Chancellor's Outstanding Alumnus in 2000 and was the Faculty of Business Outstanding Alumni award winner in that year.

9. Michael Rocca – MBA, DipEng, FAICD**Group Managing Director Telstra Services**

Michael Rocca is the Group Managing Director for the Telstra Services business unit. Michael was appointed Group Managing Director in August 2002 – an appointment that builds on three decades of experience in telecommunications over a variety of senior executive roles. Telstra Services comprises of 17,000 Telstra staff as well as an extensive contract workforce, and is the area of Telstra responsible for the end to end delivery of service to Telstra's approximately 11 million customers over all of Telstra's networks, including fixed line, mobile and satellite. Michael holds a Master of Business Administration, a Diploma of Engineering, as well as a range of qualifications in management. He is also a fellow of the Australian Institute of Company Directors.

10. Deena Shiff – BSc (Econ) Hons, BA (Law) Hons**Group Managing Director, Telstra Business**

Deena was appointed to the role of Group Managing Director, Telstra Business in January 2006. Prior to that, Deena held the role of Group Managing Director, Telstra Wholesale. Deena started her career in telecommunications with the former OTC Ltd in 1989. Deena held a number of positions in Telstra, including General Manager Corporate Affairs in the International Business Unit. Between 1995 and 1998 Deena was a partner in the Corporate Advisory Section of the law firm Mallesons Stephen Jacques. Deena rejoined Telstra in 1998 as Director of Regulatory. Deena has held a number of non-executive directorships in both the telecommunications industry and other sectors. Deena has a degree from the London School of Economics and a law degree from Cambridge University. She was admitted to the Bar in London in 1981..

11. John Stanhope – BCom (Economics & Accounting), FCPA, FCA, FAICD, FAIM
Chief Financial Officer, Group Managing Director and Finance & Administration

John Stanhope was appointed to the role of Chief Financial Officer and Group Managing Director, Finance & Administration from 1 October 2003. He is responsible for finance, treasury, risk management and assurance, corporate planning, reporting and analysis, business services, investor relations and the Office of the Company Secretary. John previously served as Director, Finance. In this role, which he assumed in 1995, he contributed to T1 and T2, cost reduction programs, growth strategies, debt raising, capital management and organisational restructures. Since joining Telstra in 1967, John has held a range of senior financial management positions including General Manager, Strategy and Finance – Special Business Products; General Manager, Finance and Business Planning – Network Products; and Executive General Manager – Business Support Services. In 2003, John was elected as National President to the Group of 100 for a two year period. He was also appointed as a member of the CPA Australia's Professional Education Board for a three year term and is chairman of the Business Coalition for Tax Reform. John is a director of Telstra Super, TelstraClear, Sensis Pty Limited and the Telstra Foundation, and is Chairman of CSL New World Mobility Ltd, 3GIS, and REACH. John was appointed as a member of the Financial Reporting Council in 2006

12. William Stewart – BSc (Mathematics & Physics)**Group Managing Director, Strategic Marketing**

Bill Stewart was appointed Group Managing Director of Strategic Marketing in July 2005. Prior to his appointment at Telstra, Bill was Executive Vice President of Strategic Marketing at Orange SA, based in London. Bill has over twenty-five years experience in the communications industry, including positions at Harris Corporation, GTE Corporation and US West. Bill has an excellent record of achievement in driving customer-focused strategies and world class marketing in the US and Europe..

13. David Thodey – BA, FAICD**Group Managing Director, Telstra Enterprise and Government**

David Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobile. He was appointed to the position of Group Managing Director, Telstra Enterprise and Government in December 2002 and is now responsible for the Company's corporate, government and large business customers. Before joining the Company, David was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive marketing and sales positions within IBM. David is the chairman of TelstraClear in New Zealand, and is also the chairman of the KAZ Group. He holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand. David attended the Kellogg Post-Graduate School General Management Program at Northwestern University in Chicago.

14. Greg Winn**Chief Operations Officer**

Greg Winn was appointed Telstra's Chief Operations Officer (COO) on 11 August 2005. His responsibilities include Telstra Services, Product Management, Billing, Credit Management, Procurement, Strategic Supplier Relations and Network, Information and Wireless Technologies. Greg also manages the cross company Program Office. Greg Winn has more than 30 years experience in the telecommunications industry, with more than 10 years experience as a senior operations officer. Prior to joining Telstra, Greg served as Executive Vice President, Operations and Technologies at US West, where he established and led major initiatives to increase productivity through process and technology improvements. Greg held positions in network services, corporate finance, small business services, product management, marketing and sales. Greg attended Arizona State University.

For a full discussion of the remuneration and benefits paid by the company to the directors and officers see the Remuneration Report in the directors' report of this annual review on pages 44 to 59.

Business unit summary

As the business transforms, so does the structure of the business – during the year we aligned the business with our customers. This saw the creation of Telstra Business, a new business unit focused on our small and medium enterprise (SME) customers.

We consolidated several business units into Telstra Operations under the Chief Operations Officer. Telstra Operations combines Telstra Services (formerly known as Infrastructure Services), Telstra Technology, Innovation and Products (TTIP) and Operations Support. Within the Operations group, we created a new Product Management group responsible for delivering new products that work together, deliver value to our customers and differentiate us from our competitors.

We also created a new Strategic Marketing business unit, responsible for the co-ordination and delivery of marketing activities across the company and market segments.

BIGPOND

OVERVIEW

Telstra BigPond® is Australia's leading Internet Service Provider (ISP) with more than 2.5 million broadband and dial-up customers. BigPond offers retail internet access to Australians through a range of technologies (ADSL, Cable, Wireless, Satellite, ISDN and Dial-Up) in conjunction with a broad range of value added services and award-winning content.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Retail broadband revenues grew 58% in 2005/06 from \$463 million to \$730 million.
- Retail broadband market share increased from 41% to 44%, and subscribers increased by 72% to 1.5 million.
- BigPond Contact Centres ranked number one in ISP phone and email based customer support for the period October to December 2005.
- Named ISP of the year by the Australian Telecom Magazine Awards.
- BigPond passed the 1 million ADSL customer mark – representing a doubling of the BigPond ADSL customer base in less than 12 months.
- Between January – June 2006, the number of BigPond Wireless Broadband subscribers almost doubled.

BIG YEAR FOR INNOVATION

- BigPond Wireless Broadband (EVDO) was launched in August 2005, providing wireless internet access at broadband speeds to over 49% of the population.
- In February, BigPond launched Cable Extreme™, increasing the maximum available speed on Telstra's Cable network from 8Mbps to up to 17Mbps.
- BigPond Movie Downloads was launched in February, Australia's first legal movie download service. This complements the existing BigPond Movies service, Australia's largest online DVD rental service with more than 20,000 titles consumers can select via their PC and have delivered to their door.
- BigBlog was launched in March, a service where people create web log diaries to share their thoughts, comments, stories, interests and adventures, hosted online on BigPond.
- BigPond launched Games Shop in June, an online games download store, enabling customers to purchase then download video games to their computers.
- During the 2006 Melbourne Commonwealth Games BigPond provided Telstra mobile customers with 3G and online services including live video streams, news, event information and athlete profiles.
- Cross Product Delivery – BigPond is working to deliver cross platform content offerings to drive BigPond broadband subscription and revenue growth.

OUTLOOK

BigPond will continue to focus on growing broadband subscribers, the provision of content and value added services and improving the customer experience.



sensis 1234

Beta
sensis mobile

sensis.com.au

citysearch
.com.au

GoStay

(sensis)

Trading Post

UBD

Whereis

White Pages

Yellow

SENSIS

OVERVIEW

Sensis is Telstra's fully owned advertising subsidiary and Australia's leading information resource. Sensis is making complex lives simpler by helping Australians find, buy and sell. Sensis provides advertising, search, mapping and IT solutions to Australian businesses and Government and connects buyers and sellers through a network of print, online, wireless, satellite navigation and voice solutions.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Sales revenues grew by 6.9% from \$1,708 million to \$1,826 million, driven by a strong Yellow Pages® non-metropolitan directory, continuing White Pages® growth, 46% growth in online revenue and strong performances in emerging businesses.
- EBITDA margins increased from 53.2% to 54.8% with strong margin growth in online.
- EBIT (before one-off items) increased 10.2% from \$845 million to \$932 million.
- 25% growth in Yellow Pages® OnLine display customers.
- An average of 12.75 million Australians now use Sensis products over ten times each per month¹.
- 27% growth in usage of Sensis online sites².
- 150% growth in unit sales of Whereis® satellite navigation content and 56% growth in usage of the Whereis.com website³.

INNOVATION DRIVING USAGE AND REVENUES

- Introduction of transactional capabilities on Trading Post® OnLine, allowing users to buy and sell, make offers, ask questions of advertisers, monitor purchases and provide feedback and ratings.
- Launched GoStay®: a new print, online and voice entrant in the lucrative accommodation market.
- New information services to support users including Choice™ Buyer Guides for Yellow Pages® OnLine and print and new auto content in Trading Post Auto.
- Launch of new services to broaden value to both buyers and sellers, including:
 1. An Australian-first click to call trial on sensis.com.au.
 2. Sensis® Mobile – Australia's first location-aware search engine.
 3. Sensis® SMS – Australia's first SMS search service.
 4. New interface and functionality upgrades for Yellow Pages® OnLine, White Pages® OnLine and Whereis.com.

OUTLOOK

Sensis is an integral part of Telstra's overall strategy and vision and will continue to innovate to drive user and advertiser value and growth. Sensis will build on its 2006 successes by defending and growing print revenues and margins, driving continued rapid growth online and managing new growth opportunities in its emerging satellite navigation, digital marketing services and transactional businesses.

USAGE STATS

Unique Browsers	Average Monthly	Average Monthly	%
	Apr 05 – Jun 05	Apr 06 – Jun 06	
Sensis Aggregate	5,860,633	7,411,108	26.5%
whitepages.com.au	2,960,306	3,437,435	16.1%
yellowpages.com.au	1,883,803	2,290,768	21.6%
Whereis.com.au	1,166,204	1,820,280	56.1%
Trading Post®	1,051,085	1,487,142	41.5%
sensis.com.au	682,178	1,049,838	53.9%

Source: Nielsen/NetRatings Site Census, Apr 05 – Jun 06

CONSUMER MARKETING AND CHANNELS

OVERVIEW

Telstra Consumer Marketing and Channels is responsible for serving consumer customers. Using market based management and product bundling offerings across the consumer segment it offers a full range of products and services including fixed and wireless data, mobiles, internet broadband, PayTV and integrated products and services bundles. The division utilises market based management to meet the needs of the customers through Telstra's consumer call centres, licensed shops and dealer networks with Telstra service product offerings.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Total revenues from external customers declined marginally in 2005/06 from \$8,931 million to \$8,897 million.
- Mobile revenue grew by 6.1% to \$4,972 million driven by strong data growth of 26%.
- Mobile customers increased by 3.2% to 8.5 million.
- Meeting our commitments:
 - Whilst overall multi-product holdings have increased by 5%, three product holdings are up by 25% and four products by 26% indicating an increased customer preference for bundled options.
 - Mobile data as a percentage of revenue has increased to 19%.
 - Our 3G wireless customers as a percentage of our customers has increased with very strong 3G subscriber growth in the last quarter.
 - Online transactions are a continued focus.
- Slowed PSTN revenue decline from 7.6% in the first half to 5.8% in the second.

FOCUS ON DELIVERING A TRULY UNIQUE CUSTOMER EXPERIENCE

- Using market based management principles, the division has identified seven customer segments, each segment having its own dedicated management team to focus on delivering customer value propositions unique to the customers in that segment.
- The 3G mobile network was launched offering video calling and a richer content experience on mobile phones to meet our customers' increasing use of data services.
- The Melbourne 2006 Commonwealth Games showcased new and innovative developments on 3G mobile networks, such as Live TV broadcasts.
- The launch of HomeLine® subscription pricing plans for fixed lines is an example of our focus on customer responsive offers.
- Two new call centres were opened in Darwin and Cairns, reflecting our geographically diverse customer base.

OUTLOOK

Telstra Consumer Marketing and Channels will continue to design, develop and deliver products and services based on the needs of its customers. Using the principles of market based management it will deliver a broader range of integrated and innovative products and services that are flexible, reliable, simple and are capable of meeting customer needs.

- (1) Roy Morgan Single Source Australia, April 2005 – March 2006. Source Australians 14+.
- (2) Source: Nielsen/NetRatings Site Census, Apr 05 – Jun 06.
- (3) ibid.

COUNTRY WIDE

OVERVIEW

Telstra Country Wide is responsible for the sales, services and management of customer relationships in regional, rural and remote parts of Australia and the development and delivery of innovative communication solutions to meet the needs of customers living in these areas.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Upgraded another 410 exchanges in regional Australia with ADSL, bringing broadband access to another 152,000 Australians under the Commonwealth Government's HiBIS and Broadband Connect schemes.
- Broadband and mobile data coverage was also extended through the expansion of the EVDO network to another 272 sites, bringing coverage to nearly half of the country's population.
- Launch of the residential HomeLine® Ultimate plan in April 2006 provided access to no charge STD calls for the first time and has proven immensely popular with TCW customers in outer metro and regional centres.

COMPETITIVE ADVANTAGE

- Area General Manager offices are located across Australia which draw on the strengths of other Telstra groups to meet the priorities of its customers. This local presence model has proven so successful that it has been extended to metropolitan areas.
- To support and leverage Telstra's new market based management approach TCW has recently established Local Area Marketing teams across Australia to work with its Area General Managers and the rest of Telstra to execute targeted, localised campaigns and conduct research to better understand and meet regional customers' telecommunications needs.
- The TCW Advisory Board engages regularly with government authorities, businesses, community groups and individuals to understand first-hand the communications issues that matter to people in outer metropolitan, regional, rural and remote Australia. The Advisory Board membership is made up of business and community leaders from across regional Australia.

OUTLOOK

Telstra's transformation will change the technology landscape in country Australia and have a profound impact on the delivery of services to regional, rural and remote customers. The launch of 3GSM 850 will bring high speed wireless broadband and new features such as video calling and content rich entertainment to many areas for the first time. It will also provide a broadband solution to those customers who have good mobile coverage but live outside the distance limitations of ADSL.

ENTERPRISE & GOVERNMENT

OVERVIEW

Telstra Enterprise and Government (TE&G) is the leading provider of information communication and technology (ICT) services and solutions in Australia and New Zealand, providing unique and integrated voice, data, mobile, services and solutions that are valued by our 1,400 Enterprise and Government customers.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Total revenues from external customers grew 0.8% in 2005/06 from \$4,570 million to \$4,607 million.
- New wave revenue grew 16% and now accounts for 37% of the revenue base.

DIVESTMENT OF AAS

On 31 August 2006, Telstra sold the superannuation administration business of the KAZ Group – Australian Administration Services (AAS) – to Link Market Services for \$215 million. A decision was made to sell AAS after it was determined that it was no longer strategic and not a core part of our business. Our profit from the sale will be approximately \$56 million.

DRIVING THE TRANSFORMATION JOURNEY

Two years ago, TE&G started its own five year transformation program to become the leading ICT provider in Australia and New Zealand. Since the overall company transformation was launched last year, TE&G has continued on its journey with the implementation of three key strategies:

1. Leading IP migration in the market;
2. Building an exclusive suite of Telstra only applications, services and solutions;
3. Differentiating on customer service and value creation.

TE&G will continue to focus on bundling IT services, value-adding solutions and high-quality carriage offerings to our customers to fundamentally change the way they operate their businesses.

EXAMPLES OF HOW WE ARE HELPING ENTERPRISE AND GOVERNMENT CUSTOMERS DO MORE THINGS IN MORE WAYS AND IN MORE PLACES:

- **Scalable Broadband:** By restructuring the telecommunications of 1,600 Victorian schools, we were able to provide high-speed on line access to the world's best learning resources – including online multimedia learning applications and video streaming.
- **Speech Recognition Solutions:** Through advanced speech recognition systems and store locator technology we were able to help connect mobile phone users to their nearest Domino's Pizza, anywhere in Australia.
- **Wireless Satellite Technology:** With state of the art satellite technology Newmont Mining's geochemical and drilling reports can now be transmitted from the outback in 'real time', ensuring quicker analysis and rock solid findings.
- **IP Networking:** With their own secure high speed IP network, Toyota now has the ability to track the progress of each and every vehicle from factory to delivery 24 hours a day at a fraction of the cost they used to incur.
- **Mobile Broadband:** With wireless data transfer technology, AAP journalists can now report over 4,500 news stories and pictures a day, around the clock and in near 'real time'.

OUTLOOK

TE&G will continue to focus on partnering with our customers to provide innovative products and solutions that add value to their business.

WHOLESALE

OVERVIEW

Telstra Wholesale is Australia's leading full service wholesaler of innovative telecommunications solutions and network capacity. Telstra Wholesale provides a wide range of wholesale products and services to the Australian domestic market including fixed, wireless, data and internet, transmission and IP, interconnection and access to Telstra's network facilities.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Total revenues from external customers grew 15% in 2005/06 from \$2,267 million to \$2,607 million.
- Broadband growth continues to be a significant contributor to the wholesale product portfolio with DSL services increasing by 70%.

AUTOMATION DELIVERING TANGIBLE BENEFITS

- As part of Telstra Wholesale's continuing efforts to enhance performance and reduce costs, we have furthered the development of our online ordering, billing and maintenance systems. The level of automation has improved this year by 11 percentage points to 70%.
- Increased automation benefits include:
 1. *Enhanced staff efficiency* – 30% increase in the number of services processed per employee.
 2. *Faster work turn-around time* – wholesale customers are ordering a greater number of services which are being supplied in a shorter time.
 3. *Ongoing improvements* – the recently launched LinxOnline™ Service that allows customers to log and track faults online continues to grow and improve, with customer usage more than doubling. Nearly 60% of service faults are now being managed online.

OUTLOOK

Telstra Wholesale is committed to building strong commercial relationships that encourage and enable existing customers and new participants to succeed by providing the support and solutions needed to grow their business.

TELSTRA BUSINESS

OVERVIEW

Telstra Business was formed at the end of January 2006 to better serve the telecommunications needs of Australian small and medium businesses. Telstra Business is committed to improving our customers' businesses through the delivery of telecommunications solutions and services.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Total revenues from external customers declined marginally in 2005/06 from \$3,099 million to \$3,053 million.
- Created a new business unit dedicated to serving small and medium enterprises (SME).

DEDICATED TO BUSINESS CUSTOMERS

- Our formation has brought together a team of approximately 2,000 staff focused on serving the business market. This consolidation incorporates a range of functions including a business-focused marketing team, as well as a sales and service workforce serving our customers via account management, dedicated contact centres, shops, dealers and resellers.
- Using market based management principles, the division has identified five business segments, each segment having its own dedicated marketing team to focus on delivering services and solutions relevant to the customers within that segment.

OUTLOOK

Telstra Business will focus on providing SME customers business solutions that allows them to do business their way.

TELSTRA OPERATIONS

OVERVIEW

Telstra Operations has responsibility for the cross-company Program Office, Telstra Services, Network and Technology, Wireless, IT Services, Product Management, Procurement, Strategic Supplier Relations, Credit Management and the Billing Directorate.

KEY ROLE IN IMPLEMENTING TRANSFORMATION STRATEGY

Telstra Operations is playing a key role in the transformation of the company, leading eight out of the ten key strategic initiatives. Operations is building the next generation network and national 3GSM 850 wireless network, leading the IT transformation, driving operational improvements through its workforce excellence and staff training programs and developing new products to meet the needs of Telstra's customers.

Telstra is partnering with some of the world's leading suppliers, accessing their global experience and "off the shelf" solutions. They include Alcatel, Accenture, Cisco and Ericsson.

HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Creation of cross-company Program Office to identify and prioritise opportunities for streamlining, implementing and coordinating all aspects of the company's transformation strategy.
- Adoption of the one factory approach to improve customer service delivery and satisfaction. One factory is driven by four key principles – do it once, do it 'right' for the customer, do it in an integrated way and do it at a lower unit cost.
- Nationally, by 30 June 2006, over 60% of the 5,112 3GSM 850 base stations had equipment installed and over 80% of the transmission lines were completed.
- Successfully completed first video call on the 3GSM 850 network between country Victoria and Sydney.
- One third of next generation IP Core network deployed since 1 July 2005.
- Successfully tested and integrated Alcatel IP-DSLAM technology into the Telstra network.
- Negotiated contracts and selected vendors for some key elements of the IT transformation.
- Launched a \$210 million five-year training initiative to equip field technicians, engineers and marketing staff with the right skills to build, operate and maintain next-generation networks and interact better with customers.
- Driven a "benefits now" program which has delivered:
 - annualised property saving of \$14 million – or 44,911 metres squared;
 - \$70 million in savings through a device sourcing agreement with Brightstar;
 - reduction in ADSL Held orders by adding new and fixing faulty ports in exchanges.

OUTLOOK

As Telstra continues its transformation, Telstra Operations will be the engine room which delivers the new infrastructure and systems that will improve the customer experience.

FOXTEL

OVERVIEW

Telstra owns 50% of Australia's leading subscription television provider, FOXTEL. In March 2004, FOXTEL Digital was launched, offering subscribers a vastly expanded array of channels and the chance to experience the benefits of a range of interactive television applications. Since that date FOXTEL has continued to build on the success of Digital by rolling out enhanced interactive features and by launching the FOXTEL iQ, a powerful personal digital recorder.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- FOXTEL became profitable for the first time in January 2006 and has remained so since.
- FOXTEL recorded EBITDA for the year of \$169 million, an improvement of \$178 million on the EBITDA loss of \$9 million for the previous year.
- FOXTEL recorded a \$4 million profit before tax, which represents a \$160 million turnaround on the previous year loss of \$156 million.
- Direct connected subscribers increased 10% for the year to 1,129,000.
- More than 1 million subscribers now use the FOXTEL Digital service (representing around 90% of the customer base) with 10% subscribing to iQ, FOXTEL's Personal Digital Recorder.
- In mid-May, FOXTEL announced an Australian-first programming agreement with Twentieth Century Fox Television Distribution. Under the deal, Fox awarded long-term future Australian television rights to FOXTEL with access to first-run rights. FOXTEL has also announced output programming deals with Buena Vista Television, CBS Paramount, NBC Universal, Warner Bros and Mark Burnett Productions.

INNOVATION

- FOXTEL negotiated a contract extension for movie supply from four major Hollywood studios (Paramount, NBCUniversal, Sony and Twentieth Century Fox) that, together with Liberty Media, are partners in the Premium Movie Partnership (PMP), suppliers of the Showtime, Showtime 2 and Showtime Greats channels. The renegotiation extended the existing agreement between FOXTEL and PMP to December 2013 and delivered a discount on PMP pricing effective from the signing of the deal.
- During 2006 FOXTEL relocated to Australia's most advanced digital broadcasting facility.

OUTLOOK

FOXTEL Digital will continue to deliver a superior entertainment experience to its subscribers. FOXTEL also will continue its investment in expanding its offering and the value of subscription through future potential innovative services such as iQ2go, mobile TV services and video on-demand services, while retaining its focus on delivering improved business performance.

INTERNATIONAL OPERATIONS

CSL NEW WORLD MOBILITY GROUP

OVERVIEW

In February 2001, we acquired a 60% ownership interest in CSL, followed by the remaining 40% ownership in June 2002 as part of our redemption of a convertible note from PCCW. In March 2006, we merged the CSL entity with New World PCS Limited to form the CSL New World Mobility Group (CSLNW), a Hong Kong mobile operator of which we own 76.4%.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Total income (includes three months of New World) increased 12.1% from HK\$4,308 million to HK\$4,831 million.
- Delivered revenue growth despite a difficult operating environment, characterised by significant market competition and local voice price erosion.
- EBITDA increased 9.3% from HK\$1,272 million to HK\$1,390 million.
- 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.

CSL AND NEW WORLD MERGER COMPLETED ON 31 MARCH 2006

- Merger brought together CSL, Hong Kong's premium provider of mobile voice and data services, and New World PCS; which targeted value conscious customers with a low cost business model.
- The merged entity provides a much broader customer base of 2.6 million for growth.
- CSLNW continues to enhance its 3G network and promote 3G services through the deployment of pioneering technology and innovative applications.

OUTLOOK

The merger of Hong Kong CSL and New World PCS brings about synergies for both companies for further growth in the local mobile communications arena. The merged entity will continue to market services through different mobile brands – 1010, One2Free and New World Mobility – with each brand targeting different customer segments through a unique portfolio and market position.

SOUFUN

OVERVIEW

On 31 August 2006, we purchased a 51 per cent shareholding in SouFun, China's leading real estate and home furnishing web site. Telstra made the acquisition at a total cash outlay of \$342 million. SouFun provides an attractive entry point into China, one of the world's fastest growing economies.

This investment is integral to the Sensis growth strategy of expanding into new geographic markets through the pursuit of partnerships that can deliver value to our shareholders.

OUTLOOK

SouFun is expected to contribute net revenue of \$52 million and EBITDA of \$18 million to the Telstra group in the 2007 fiscal year.

TELSTRACLEAR

OVERVIEW

A wholly owned subsidiary, TelstraClear is the second largest full service carrier in New Zealand. TelstraClear provides innovative voice, data, internet, mobile resale, managed services and cable television products and services to the New Zealand market.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

- Total income increased by 2.5% from NZ\$676 million to NZ\$693 million.
- Revenue growth was driven by the full year impact of the national HomePlan offering in the consumer segment and a full year of Sytec revenue after its acquisition in November 2004.
- EBITDA increased by 1.6% from NZ\$122 million to NZ\$124 million.

PROVINCIAL WIRELESS NETWORK BY JULY 2007

- TelstraClear will build a wireless network in the growing provincial city of Tauranga. This will allow us to provide a local phone service, broadband and mobile offering to business and residential customers.

OUTLOOK

TelstraClear and the New Zealand market remain 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 communications and IT solutions.

REACH

OVERVIEW

REACH is a 50/50 joint venture with PCCW, which provides outsourcing services in support of Telstra's and PCCW's international voice and data services. REACH is also one of the world's top carriers of international voice traffic. REACH operates and maintains voice and data switching platforms, satellite earth stations and a network of over fifty submarine cable systems, together with associated landing rights, backhaul, operating licences and bilateral agreements in most international markets.

PERFORMANCE HIGHLIGHTS FOR THE YEAR TO 30 JUNE 2006

Last year Telstra and PCCW reported a number of improvements to the REACH operating model, whereby REACH would provide voice and data services to the two shareholders in return for an outsourcing fee on a cost plus mark-up basis. This year has focused on a consolidation of the new operating model. Data volumes continue to grow strongly and voice business volumes are stable.

OUTLOOK

Telstra and REACH will continue to focus on a range of initiatives aimed at securing comprehensive international voice and data services at low unit cost.

Corporate social responsibility

At Telstra our corporate social responsibility vision is to connect with our people, customers, communities and suppliers in an accessible, healthy and environmentally sound way. Telstra is proud of its record supporting the community.



“In the aftermath of Cyclone Larry, Telstra people took satisfaction in being able to help the community in a time of great need.”

John Parkin, Telstra Services, Queensland (pictured above in Babinda, standing in the telephone exchange yard. The local RSL is the damaged building in the background).

Corporate Social Responsibility (CSR) reporting is managed by the Community Investment Team in the Public Policy and Communications business unit. However, all parts of the business have accountability for their own CSR activities.

This year, we participated in the third Business in the Community Corporate Responsibility Index, overseen in Australia by the St James Ethics Centre. We again scored higher than the average score achieved by the 29 companies participating. The Corporate Responsibility Index is a tool which assists Telstra to benchmark our performance in relation to CSR and identify both areas where we are doing well, and where we can implement action to improve our performance. We also regularly participate in the FTSE4Good and a number of ethical investment surveys and indices.

Our activity over the year included:

THE COMMUNITY

Telstra supported communities affected by natural disasters, such as Cyclones Larry and Monica, the Katherine Floods and a range of bushfires across Australia in January 2006. Our support efforts were aimed at helping people in affected areas maintain access to communications, and have contact with family and friends to advise them of their circumstances. Support included relief packages for affected customers consisting of:

- free call diversion from fixed service to a mobile service of the customers' choice, regardless of carrier;
- Telstra mobile customers who report the loss of their Telstra fixed service due to these natural disasters will be charged at fixed line rates, in accordance with their selected HomeLine® plan, for local and STD calls made on their mobile service;
- a one-off credit of \$50 for Telstra mobile customers who do not have a fixed line phone and whose homes have been destroyed by bushfires; and
- the suspension and reconnection at no cost of one fixed home phone and BigPond service per household, where homes were destroyed by the disaster.

Additional assistance varied according to the nature and impact of the event and included the distribution of pre-paid mobiles and phone cards to community agencies that were assisting in affected areas.

Telstra also provided assistance for customers who were affected by the Bali explosions in October 2005, the London explosions in July 2005 and the Pakistan earthquake in October 2005 including:

- rebating calls from Telstra fixed and mobile services to check on the wellbeing of family members in the affected areas;
- rebating of mobile calls for Telstra customers who were travelling in the affected areas to advise relatives in Australia of their circumstances; and

- the rebate of calls for one month for Telstra customers or their family members who were hospitalised as a result of the incidents.

Telstra Friends, our volunteer network, donated more than 11,100 volunteer hours at 162 community events and raised in excess of \$84,000 for charities. This year Telstra Friends undertook a major project in cooperation with the Australian Red Cross Blood Service to encourage staff to donate blood and increase awareness of the need for regular blood donations. On 19 October, 2005 on Telstra's 'Blood for Life Day' more than 2000 Telstra staff donated blood on the one day at Red Cross blood banks nationally. Telstra Friends also continued to support the sponsorship commitment with Telstra Child Flight helicopter retrieval service by creating fundraising events and providing volunteer support that helped to raise over \$37,000 to assist the service this year.

Now in its fifth year, the Telstra Foundation continues to support Australian children and young people to reach their potential and build stronger and more cohesive communities. Through the Foundation's Community Development Fund and the Telstra's Kids Fund, we supported 738 community projects and provided grants to the value of \$4.28 million.

ENVIRONMENT

In 2005, the Sensis® Directory Recycling Program recycled 71% of old directories, saving more than 30,190 tonnes of paper.

The partnership between Telstra online billing and Landcare Australia resulted in the revegetation of over 142 hectares of land in rural Victoria. Telstra gives a donation to Landcare for each customer who switches off their paper bill.

We held a Mobile Muster Day at five of Telstra's corporate buildings to raise awareness of the industry mobile phone recycling scheme. Over 1,000 phones and accessories were collected and recycled in one day. Following the success of this day, recycling bins have now been located at most Telstra mail rooms.

More information on Telstra's environmental management system, policy and performance is available at www.telstra.com.au/environment.

WORKPLACE

Telstra has focused on enabling women to reach their full potential by identifying opportunities to move into senior management positions and providing support for women returning from maternity leave. Telstra has assisted women move into non-traditional roles through various pre-employment and career development programs both internally and externally.

The overall representation rate for women in senior management has improved from 21.1% in fiscal 2005 to 23.71% in fiscal 2006.

Telstra employees celebrated International Women's Day through a series of Women Speaker Forums across the nation. Telstra also holds Foundation Partner member status with the Serious Women's Business Conference and sent a host of high potential female employees to the conference in 2005.

Telstra celebrated National Aboriginal and Islander Day Of Celebration (NAIDOC) Week 2005 with a range of corporate and business unit level activities. Telstra also hosted lunches and morning teas for local indigenous communities such as the Thornbury Primary School in Melbourne, Victoria.

Telstra is committed to providing a flexible workplace which focuses on employee wellbeing and work life balance. Results are achieved through initiatives such as part time and job share guidelines, and Telstra's commitment to health and wellbeing programs such as Skin Cancer Awareness Week and Healthy Heart Week.

MARKETPLACE

This year, Telstra provided over \$200 million in benefits to low-income Australians through a range of concessions and products and services, available through the Access for Everyone package.

A 2005 survey showed high satisfaction among the users of the products and services provided through this package. In January 2006, Telstra launched an additional program in the package, the Telstra Phonecard Assistance Program, through which Telstra will provide community agencies with up to \$1 million of Phonecards per annum to assist clients who rely on Telstra public payphones for their communications needs.

In July 2005, Telstra released a Big-Button/Multipurpose phone through our Disability Equipment Program. The features of the new phone help our customers who have difficulty reading or dialling numbers on their phone, holding a phone handset, hearing or making themselves heard on the phone or getting to the phone in time to answer it. It is one example of Telstra's extensive range of products and services available to eligible customers through our Disability Equipment Program at no additional cost to their standard monthly phone rental. See our website www.telstra.com.au/disability/catalogue/equipment.htm for more information.

Board of Directors

**1. Donald G McGauchie – AO**

Age 56

Chairman

Mr McGauchie joined Telstra as a non-executive director in September 1998 and was appointed as chairman in July 2004. He is chairman of the Nomination Committee and is a member of the Remuneration Committee.

Experience:

Mr McGauchie has wide commercial experience within the food processing, commodity trading, finance and telecommunication sectors. He also has extensive public policy experience, having previously held several high-level advisory positions to the government including the Prime Minister's Supermarket to Asia Council, the Foreign Affairs Council and the Trade Policy Advisory Council.

Directorships of other listed companies – current:

Director, James Hardie Industries NV (2003-) and Nufarm Limited (2003-).

Directorships of listed companies – past three years:

Deputy Chairman, Ridley Corporation Limited (1998-2004); Director, National Foods Limited (2000-2005) and Graincorp Limited (1999-2003).

Other:

Current: Director, Reserve Bank of Australia; Partner, C&E McGauchie – Terrick West Estate.

Former: President of the National Farmers Federation (1994-1998); Chairman, Rural Finance Corporation (2003-2004).

Awarded the Centenary Medal for service to Australian society through agriculture and business in 2003. Appointed an officer in the general division of the Order of Australia in 2004.

2. Solomon D Trujillo – BSc, BBus, MBA, Hon Doctor of Law Degrees (University of Wyoming, University of Colorado)

Age 54

Chief Executive Officer

Mr Trujillo joined Telstra as CEO on 1 July 2005.

Experience:

Mr Trujillo has spent his career in the communications sector where he managed fixed line, wireless, broadband and directory businesses and served as a leader in the shift to market-based management.

He most recently served as CEO of Orange SA, one of Europe's leading wireless companies. Mr Trujillo was chairman and CEO of US West until he retired in July 2000 after the company's merger with Qwest Communications.

Directorships of other listed companies – current:

Target Corporation (1994-).

Directorships of listed companies – past three years:

Director, Electronic Data Systems Corporation (EDS) (2005-2005), PepsiCo Inc. (2000-2005), Orange SA (2001-2005) and Gannett Co Inc (2002-2006).

Other:

Current: Member, World Economic Forum (2005-) and UCLA's School of Public Affairs (2000-); Trustee, Boston College; Director, Tomas Rivera Policy Institute (1991-). Recipient, the Ronald H. Brown Corporate Bridge Builder Award in 1999 from President Clinton for his lifetime commitment as an advocate of workplace diversity.

3. Belinda J Hutchinson – BEc, FCA

Age 53

Ms Hutchinson joined Telstra as a non-executive director in November 2001. She has been a member of the Audit Committee since February 2005.

Experience:

Ms Hutchinson has had a long association with the banking industry and has been associated with Macquarie Bank since 1993 where she was an executive director. She was previously a vice president of Citibank Ltd.

Directorships of other listed companies – current:

Director, QBE Insurance Group Limited (1997-) and Coles-Myer Ltd (2005-).

Directorships of listed companies – past three years:

Director, TAB Limited (1997-2004) and Crane Group Limited (1997-2004).

Other:

Current: Director, St Vincent's and Mater Health Sydney Limited (2001-); President, Library Council of New South Wales (2005-) (member since 1997); and Consultant, Macquarie Bank Limited (1997-).

Former: Director of Energy Australia Limited (1997- 2005).

4. Catherine B Livingstone – BA (Hons), FCA, FTSE

Age 50

Ms Livingstone joined Telstra as non-executive director in November 2000. She is a member of the Audit Committee and the Technology Committee.

Experience:

Ms Livingstone has a degree in accounting and has held several finance and general management roles predominantly in the medical devices sector. Ms Livingstone was the chief executive of Cochlear Limited (1994-2000).

Directorships of other listed companies – current:

Director, Macquarie Bank Limited (2003-).

Directorships of listed companies – past three years:

Director, Goodman Fielder Ltd (2000-2003) and Rural Press Limited (2000-2003).

Other:

Current: Chairman, CSIRO (2001-); Member, Business/Industry/Higher Education Collaboration Committee (BIHECC).

Former: Chairman and Director Australian Business Foundation (2000-2005); Director, Sydney Institute (1998-2005); Former Member, Department of Accounting and Finance Advisory Board Macquarie University.

5. Charles Macek – BEc, MAdmin, FAICD, FCPA, FAIM, SF Fin, FCA

Age 59

Mr Macek joined Telstra as a non-executive director in November 2001. He is a member of the Audit Committee and Nomination Committee and is chairman of the Remuneration Committee.

Experience:

Mr Macek has a strong background in economics and has had a long association with the finance and investment industry. His former roles include 16 years as founding managing director and chief investment officer and subsequently chairman of County Investment Management Ltd.

Directorships of other listed companies – current:

Director, Wesfarmers Ltd (2001-) and Living Cell Technologies Limited (2006-).

Directorships of listed companies – past three years:

Chairman and Director, IOOF Holdings Ltd (2002-2003).

Other:

Current: Chairman, Sustainable Investment Research Institute Pty Ltd (2002-) and Financial Reporting Council (FRC) (2003-); Director, Williamson Community Leadership Program Limited (2004-); Victorian Councillor, Australian Institute of Company Directors; Member, New Zealand Accounting Standards Review Board and Investment Committee of Unisuper Ltd.

Former: Chairman, Centre for Eye Research Australia Ltd (1996-2003); Director of Famoice Technology Pty Ltd (2001-2004) and Vertex Capital Pty Ltd (2004-2006).

6. John W Stocker – AO, MB, BSc, BMedSc, PhD, FRACP, FTSE

Age 61

Dr Stocker joined Telstra as a non-executive director in October 1996. He is chairman of the Audit Committee and Technology Committee.

Experience:

Dr Stocker has had a distinguished career in pharmaceutical research and extensive experience in management of research and development, and its commercialisation including in his role as chief scientist for the Commonwealth of Australia (1996-1999).

Directorships of other listed companies – current:

Chairman, Sigma Pharmaceuticals Ltd (2005-); Director, Circadian Technologies Ltd (1996-) and Nufarm Limited (1998-).

Directorships of listed companies – past three years:

Chairman, Sigma Company Ltd (1998-2005); Director, Cambridge Antibody Technology Group plc (1995-2006).

Other:

Current: Principal, Foursight Associates Pty Ltd.
Former: Chairman, Grape and Wine Research and Development Corporation (1997-2004).

7. John D Zeglis – BSc Finance, JD Law

Age 59

Mr Zeglis joined Telstra as a non-executive director on 17 May 2006.

Experience:

Mr Zeglis has a legal background, and became partner with the law firm Sidley & Austin in 1978. His qualifications include a BSc in finance from the University of Illinois, and a JD in law from Harvard.

Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected as president of AT&T in 1998 and chairman and CEO of the AT&T Wireless Group in 1999. He continued as CEO of AT&T Wireless until retiring in November 2004 following the company's sale to Cingular Wireless.

Directorships of other listed companies – current:

Director, Helmerich & Payne Corporation (1989-).

Directorships of listed companies – past three years:

Director, Georgia Pacific Corporation (2001-2005).

Other:

Current: Director, AMX Corporation; (2005-) and State Farm Automobile Insurance (2004-).

Former: Director, Sara Lee Corporation (1998-2000) and Illinois Power Company (1992-1996).

8. Peter J Willcox – MA, FAICD

Age 60

Mr Willcox joined Telstra as a non-executive director on 17 May 2006.

Experience:

Mr Willcox holds a masters degree in physics from Cambridge University and following a 28 year career in the international petroleum industry was appointed as CEO of BHP Petroleum Limited, from 1986 to 1994. He has wide and diverse experience as a director and chairman of Australian and American listed companies and sits on the advisory board of CVC Asia Pacific (Australia) Limited.

Directorships of other listed companies – current:

Chairman, Mayne Pharma (2005-).

Directorships of listed companies – past three years:

Chairman, AMP Limited (2002- 2005) and Mayne Group Ltd (2002-2005).

Other:

Current: Director, CSIRO (2006-).

Former: Director, Energy Developments Ltd (1994-2002), Lend Lease Corporation (1994-2000), F.H. Faulding & Co Ltd (1994-2001), James Hardie Industries Ltd (1994-2001), North Ltd (1994-2000), Schroders (Australia) Ltd (1994-1999), BHP Ltd (1988-1994) and Woodside Petroleum (1986-1993).

Qualifications and experience of our company secretary:**Douglas C Gratton – FCIS, BSc, LLB (Hons), GDip AppFin**

Age 41

Mr Gratton was appointed company secretary of Telstra Corporation Limited in August 2001.

Before joining Telstra, Mr Gratton was a partner in a leading national law firm. He specialised in corporate finance and securities law, mergers and acquisitions and joint ventures and other commercial contracts, and played a key role in the T1 and T2 privatisations.

Mr Gratton also advised on telecommunication regulatory matters. Other roles previously held in Telstra include deputy group general counsel and Infrastructure Services and Wholesale general counsel.

During the year and through to the date of the report, the following directors resigned or retired:

- John E Fletcher resigned as a director on 30 June 2006;
- John T Ralph retired as a director on 11 August 2005;
- Anthony J Clark retired as a director on 11 August 2005; and
- Zygmunt E Switkowski resigned as a director on 1 July 2005.

A brief biography for each of the former directors is presented below:**John E Fletcher – FCPA**

Mr Fletcher joined Telstra as a non-executive director in November 2000. He was a member of the Nomination Committee and the Remuneration Committee. John E Fletcher resigned as director on 30 June 2006.

Mr Fletcher has had extensive experience in management in the transport industry and was formerly chief executive of Brambles Industries Ltd. Mr Fletcher was employed by Brambles for 27 years, initially in an accounting role and then in a series of operating and senior management positions before being appointed as chief executive in 1993.

John T Ralph – AC, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melbourne & Queensland), DUniv (ACU)

Mr Ralph joined Telstra as non-executive director and deputy chairman in October 1996. He was a member of the Audit Committee, Nomination Committee and Remuneration Committee. John Ralph retired as director on 11 August 2005.

Mr Ralph has had over 50 years of experience in the mining and finance industries. Mr Ralph was formerly chief executive and managing director of CRA Limited. He has previously served on the boards of several of Australia's largest companies including the Commonwealth Bank of Australia Limited, BHP Billiton Limited and Fosters Group Limited.

Anthony J Clark – AM, FCA, FAICD

Mr Clark joined Telstra as a non-executive director in October 1996.

He served on the Audit Committee until February 2005. Anthony Clark retired as director on 11 August 2005.

Mr Clark has had extensive experience in the accounting field, specialising in audit and advisory services and is a fellow of the Institute of Chartered Accountants and a fellow of the Australian Institute of Company Directors. Mr Clark was formerly a managing partner KPMG NSW.

Zygmunt E Switkowski – BSc (Hons), PhD, FAICD

Mr Switkowski was appointed CEO and executive director from March 1999. Zygmunt Switkowski resigned as CEO and executive director on 1 July 2005.

Formerly CEO of Optus Communications Ltd and chairman and managing director of Kodak (Australasia) Pty Ltd and the Business Council of Australia.

For a full discussion of the remuneration and benefits paid by the company to the directors and officers see the Remuneration Report in the directors' report of this annual review on pages 44 to 59.

Directors' report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of or during the year ended 30 June 2006.

This is our first full year financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards (A-IFRS). When preparing this directors' report, we have amended certain accounting and valuation methods applied under the previous Australian Generally Accepted Accounting Principles (AGAAP) to comply with A-IFRS. With the exception of financial instruments, the comparative figures have been restated to reflect these adjustments.

This year has seen the commencement of a three to five year transformation of the company to improve long term shareholder value. The financial performance of the Company in fiscal 2006 was impacted by the investment in this transformation and provision for future restructuring.

PRINCIPAL ACTIVITY

Telstra's principal activity during the financial year was to provide telecommunications and information services for domestic and international customers. There has been no significant change in the nature of this activity during the year.

RESULTS OF OPERATIONS

Telstra's profit for the year was \$3,181 million (2005: \$4,309 million). This result was after deducting:

- net finance costs of \$936 million (2005: \$880 million); and
- income tax expense of \$1,380 million (2005: \$1,746 million).

Earnings before interest and income tax expense was \$5,497 million, representing a decrease of \$1,438 million or 20.7% on the prior year's result of \$6,935 million. This decrease was due to higher labour costs, in particular redundancy costs, higher goods and services purchased and increases in other expenses supporting revenue growth. Expenses were also impacted by the recognition of transformation related expenses, including a provision at year end for redundancy and restructuring costs of \$427 million to be incurred as part of our business transformation.

REVIEW OF OPERATIONS

Financial performance

Our total income (excluding finance income) increased by \$658 million or 2.9% to \$23,100 million, reflecting a rise in total revenue (excluding finance income) of \$591 million or 2.7% and other income by \$67 million or 25.7%.

Total income (excluding finance income) growth was mainly attributable to:

- mobile goods and services – \$284 million or 6.1%;
- internet and IP solutions revenue – \$530 million or 38.5%;
- advertising and directories revenue – \$126 million or 7.9%; and
- pay TV bundling – \$57 million or 21.7%.

Mobile goods and services revenue increased largely due to increases in mobile data, international roaming and mobile interconnection revenues. Our interconnection revenues increased primarily due to Hutchison 3G roaming services, which commenced in April 2005. In addition, we continued to experience growth in the number of mobiles in operation of 261,000 to reach a total of 8.5 million, as well

as increased revenue from mobile handset sales. 3G services were launched and take up has been very promising. Data usage is particularly strong by 3G users.

The increase in internet and IP solutions revenue was due to the significant growth in the number of subscribers to our BigPond® broadband product. During fiscal 2006 we increased the number of broadband subscribers by 1.2 million to 2.9 million, reflecting wholesale subscribers of 1.4 million and retail subscribers of 1.5 million.

Our advertising and directories revenue increased compared with the prior year due to the continued strong performance of our Yellow Pages® and White Pages® print directories and strong growth in online products. This growth has also been driven by innovative marketing and product development strategies.

Pay TV bundling revenue increased due to new subscribers and current subscribers migrating to the FOXTEL digital premium product as a result of promotions during the year, offering minimal price installation and discounted packages.

Partially offsetting the revenue growth was a decline in PSTN product revenues of \$540 million or 6.7% as the market continues to move towards new products and services. There has been a general reduction in PSTN volumes during the year 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 due to competitive pricing pressure and continuing customer migration to other products. The rate of decline in the second half of the year has reduced.

Total operating expenses (before depreciation and amortisation, finance costs and income tax expense) increased by \$1,637 million or 13.8% compared with the prior year. This growth was mainly attributable to:

- labour – \$506 million or 13.1%;
- goods and services purchased – \$519 million or 12.3%; and
- other expenses – \$612 million or 16.0%.

Excluding the effects of our transformation costs, our total operating expenses (before depreciation and amortisation, finance costs and income tax expense) increased by \$933 million or 7.9%. Further details of the increase in expenses is discussed below.

Labour costs grew in fiscal 2006 mainly due to the following:

- an increase in redundancy expense due to transformation initiatives;
- annual salary increases due to enterprise agreements and annual salary reviews; and
- an increase in labour expense of controlled entities as a result of entities acquired during fiscal 2005 being included for the full year in fiscal 2006.

Goods and services purchased increased due to the following:

- an increase in network payments as a result of a rise in the number of terminations on other networks and additional network access charges incurred as a result of our 3G partnership activities;
- higher handset subsidies from an increase in the take up of subsidised plans;
- a rise in purchases of pay TV services to enable us to provide bundled products to meet market demand; and
- increased costs associated with our restructuring provision.

Other expenses grew due to the following:

- recognition of a restructuring provision associated with our property rationalisation, cancellation of server leases and decommissioning of certain information technology platforms;
- increased maintenance costs of the existing 3G network and the operational expenditure relating to the construction of the new 3GSM 850 network; and
- increased costs associated with our transformation initiatives, including higher consultancy costs for transformation activities and additional market research as part of our market based management approach.

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

Partially offsetting the growth in other expenses was a reduction in our bad and doubtful debt expense resulting from improved credit management performance that led to lower debtor provision requirements and write offs, as well as reduced payments to external debt collection agents.

Net finance costs increased by \$56 million or 6.4% in fiscal 2006, primarily due to higher levels of debts driven by the cash requirements to fund the payment of our dividends and capital expenditure associated with the improvement of our core infrastructure. Our borrowings have also been affected by a higher effective interest rate as a result of refinancing elements of our maturing debt. The net debt gearing level remains within the financial parameters set by the Board.

Income tax expense decreased by \$366 million or 20.9% to \$1,380 million in fiscal 2006 mainly as a result of the lower profit. The effective tax rate in the current year was 30.3% compared with the prior year rate of 28.8%. The effective tax rate is consistent with the Commonwealth statutory marginal income tax corporate rate of 30.0%. The effective tax rate has increased from the prior year mainly due to reduced differences for partnership losses and an increase in the under provision for tax from prior periods.

Financial condition

We continued to maintain a strong financial position, as demonstrated by us generating free cash flow of \$4,550 million. During fiscal 2006 we continued to develop our core infrastructure network and re-energise our Company through ongoing operational transformation. In addition, we acquired a number of strategic investments and paid a total of \$4,970 million to shareholders as dividends in fiscal 2006.

As part of our ongoing operational transformation, we have introduced the one factory methodology to consolidate and simplify the way we operate at all levels of the business. Previously, we had invested in multiple platforms in our existing networks. We intend on using economies of scale to ensure rationalisation of the number of operational platforms. We are currently implementing new business support systems and operational support systems to deliver simplification of our current processes and new capabilities cost effectively.

During fiscal 2006, we merged our 100% owned Hong Kong mobile operations (Telstra CSL Group) with the Hong Kong mobile operations

of New World PCS Holdings Limited and its controlled entities (New World Mobility Group) to form the CSL New World Mobility Group. Under the merger agreement, Telstra CSL Limited (Telstra CSL) issued new shares to New World Mobility Holdings Limited in return for 100% of the issued capital of the New World Mobility Group and \$42 million in net proceeds. The share issue diluted Telstra's ownership in the merged group to 76.4%.

This merger was undertaken as the two entities undertake complementary services in providing mobile telecommunication products and services in Hong Kong. We believe the CSL New World Mobility Group will be able to leverage their strong brand recognition and common network. The merged entity will also create the largest wireless service provider in the Hong Kong market.

During fiscal 2006, our credit rating outlook was adjusted by Standard and Poor's, and Moody's. The change was initiated as a result of the uncertain environment in which we are operating, reflected by the regulatory uncertainty and the speculation surrounding the further sale of shares in our Company. As a result, our current credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poor's	A	A1	negative
Moody's	A2	P1	negative
Fitch	A+	F1	negative

Our financial condition has enabled us to execute partially our announced capital management program. During fiscal 2006, we returned \$4,970 million to shareholders as ordinary and special dividend payments. In fiscal 2006, we paid two special dividends of 6 cents per share (\$1,492 million) with our final dividend and interim dividend. We announced during the year that the third year of the capital management policy would not occur. Refer to the strategy section below for further details.

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

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

Cash used in investing activities was \$4,012 million, representing an increase of \$246 million over the prior year. The increase is mainly attributable to capital expenditure to upgrade our telecommunications networks, eliminate components that are no longer useful and improve the systems used to operate our networks. Our investing expenditure also includes \$312 million of deferred payments in relation to our purchase of the 3G radio access network assets from Hutchison Australia Pty Ltd in fiscal 2005.

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

Investor return and other key ratios

Our basic earnings per share decreased to 25.7 cents per share in fiscal 2006 from 34.7 cents per share in the prior year. The decrease was due to lower profit in fiscal 2006.

We have declared a final fully franked dividend of 14 cents per ordinary share (\$1,739 million), bringing declared dividends per share for fiscal 2006 to 34 cents per share. The prior year declared dividends amounted to 40 cents per share. The dividends paid in fiscal 2006 were 40 cents per share compared with dividends paid in fiscal 2005 of 33 cents per share. In addition to our dividends in fiscal 2005, we returned \$750 million to shareholders through an off market share buy-back during fiscal 2005.

Other relevant measures of return include the following:

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

The return on both average assets and average equity is lower in fiscal 2006 primarily due to lower profit as previously discussed.

Strategy

We are Australia's largest telecommunications and information services company. We offer a full range of telecommunication products and services throughout Australia and various telecommunication services in certain overseas countries.

During fiscal 2006, we announced our new strategic and operational focus to continually move forward as an Australian market leader in the telecommunications industry. This review was a blueprint for improving our long term performance by providing a solid platform to drive future growth and create operational efficiencies.

Our vision is to streamline our processes to provide solutions that are simple and valued by our customers, which we believe will ultimately lead to the creation of long term value for our shareholders. Our strategy involves:

- providing customers with integrated telecommunication services;
- investing in systems and processes to remove complexity and cost from the business;
- continually improving our operating performance in mobiles and broadband, as well as accelerating opportunities in Sensis;
- investing in new services and applications to differentiate us from our competitors; and
- targeted investing in areas where we can create value for our shareholders.

We intend to deliver our new strategy through the implementation of a one factory approach and market based management. The one factory approach involves bringing together the operations and management of our internal IT systems, removing duplication and complexity in our systems and implementing simpler and efficient processes and systems, which we believe will improve our operational efficiency and cost structure. Market based management involves us obtaining a better understanding of each of our respective customers' unique segment needs, priorities and expectations. It is based on extensive market research, which we will utilise to ensure our processes and procedures meet our various customer requirements to ultimately provide them with better services.

In addition, we currently face a series of business operating issues that we expect will impact our future results. These issues range from regulatory issues, including unconditioned local loop access pricing and operational separation, to the potential full sale of the Company.

We are currently in the process of rebuilding, redirecting and transforming the Company. The next three to five years will see us concentrate on rebuilding the network, redirecting resources into next generation services, reshaping the business and segmentation of customers according to their needs. By streamlining our operations, while better satisfying the needs of our customers, we believe we can deliver the financial performance improvements expected by our shareholders.

Although the transformation of our Company is at an early stage, current progress is encouraging. Our transformation has already resulted in our national 3GSM 850 network build being more than 60% complete. Savings have been achieved by consolidating office space, vacating existing leases and sourcing mobile devices through global supply-chain specialist, Brightstar. In addition, we have slowed the PSTN revenue decline in the second half of the year and increased the number of customers using three or more Telstra products. At the same time, we have significantly reduced our customers' unsatisfied demand for ADSL broadband.

Our Fibre to the Node (FTTN) project is on hold, however we have devoted substantial time and resources in discussions with the ACCC to achieve regulation reform, including safeguards for shareholder investments. Until our actual costs are recognised and the ACCC's regulatory practices change, we will not invest in a FTTN broadband network.

We believe that the successful transformation of our Company will achieve the following:

- simplified and integrated experience for our customers;
- Telstra BigPond to be Australia's leading ISP and services entity;
- Sensis to be Australia's leading information resource;
- our Company to have the leading wireless network with faster speeds and best in-building coverage, as well as Australia's largest IP network, providing customers with integrated telecommunications services; and
- operational and cost efficiencies.

During fiscal 2006, we revised our capital management policy to not make the last payment of a special dividend. No decision with respect to the payment or funding of future ordinary dividends has been made. The Board will make these decisions in the normal cycle having regard to, among other factors, the Company's earnings and cash flow, as well as regulatory decisions¹.

Industry dynamics

The Australian telecommunications industry is continually changing. We have seen the number of mobile handsets in the Australian market continue to grow, as well as the use of mobile services. Most households continue to maintain a basic access line, however PSTN products are increasingly being substituted by wireless products.

Advances in technology continue to transform the telecommunications industry. In recent years, we have seen various new product offerings released to the market, including the provision of high-speed wireless services, 3G mobile services. Voice services over IP (VoIP) is another area of change for which the industry is preparing.

(1) Information current as at 10 August 2006, refer to page 6 for the updated information.

We have successfully commissioned and commenced testing our next generation VoIP platform which we believe will offer value added broadband services to our customers in the future. We expect take up of this product to increase in future reporting periods, as the market becomes more aware of its performance capabilities.

We aim to be at the forefront of providing leading edge telecommunication services to meet the demands of our customers. During fiscal 2006, we proposed the roll out of the new 3GSM 850 network. In addition to current services already experienced on existing networks, we believe future 3GSM 850 customers will enjoy many enhanced features, such as improved video calling services and faster broadband access speeds, in addition to better in-building coverage.

The broadband sector is in a significant growth phase as the demand for high speed internet access accelerates. We have recently seen large increases in broadband subscribers and a steady fall in prices as providers compete for market share. We expect the broadband sector to continue its expansion through the provision of new innovative products.

As telecommunications, computing and media technologies continue to converge, we are focused on enhancing our capabilities to provide new and innovative application and content services and to expand further into these converging markets. The challenge for telecommunications companies moving forward will be to continue maximising revenues from higher margin traditional products such as PSTN products, while managing the shift in customer demand to lower margin emerging products such as broadband. Overall operating margins are under constant pressure from the product mix change to lower margin products. However, as we build a software based cost efficient infrastructure, new products, applications and content can be delivered at low incremental costs to again provide good margins.

We continue to be at the forefront of these, and other technology advancements as we continue to devote substantial capital to upgrading and simplifying our telecommunications networks to meet customer demand, particularly for the new product and growth areas. We believe we are well positioned to focus on these areas of new customer demand by providing a broad range of innovative products with creative and competitive pricing structures.

Sale of the Commonwealth's remaining interest in Telstra¹

The Commonwealth Government has passed legislation to enable the sale of its remaining interest in Telstra. The Government has stated that it is yet to decide about proceeding with a sale. This decision will include an assessment of whether the level of demand for the shares would allow a partial or full sale of the Commonwealth's remaining interest. Until this decision is made by the Government and announced, it is unclear how this may affect our capital structure, operations and corporate compliance obligations. Any sale by the Commonwealth of its remaining interest will require our management's time and resources.

DIVIDENDS¹

The directors have declared a fully franked final dividend of 14 cents per share (\$1,739 million). The dividends will be franked at a tax rate of 30%. The record date for the final dividend will be 25 August 2006 with payment being made on 22 September 2006. Shares will trade excluding entitlement to the dividend on 21 August 2006.

(1) Information current as at 10 August 2006, refer to page 6 for the updated information.

During fiscal 2006, the following dividends were paid:

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2005	11 August 2005	31 October 2005	14 cents franked to 100%	\$1,739 million
Special dividend for the year ended 30 June 2005	11 August 2005	31 October 2005	6 cents franked to 100%	\$746 million
Interim dividend for the year ended 30 June 2006	8 February 2006	24 March 2006	14 cents franked to 100%	\$1,739 million
Special dividend for the year ended 30 June 2006	8 February 2006	24 March 2006	6 cents franked to 100%	\$746 million

At present, it is expected that we will be able to fully frank declared dividends out of fiscal 2007 earnings. However, the directors can give no assurance as to the future level of dividends, or of the franking of these dividends¹. This is because our ability to frank dividends depends upon, among other factors, our earnings, Government legislation and our tax position.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of our Company during the financial year ended 30 June 2006, except for:

- we announced our new strategic and operational focus to continually move forward as an Australian market leader in the telecommunications industry. As part of this strategic review, we unveiled a blueprint for improving our long term performance; and
- we are involved in continuing discussions over the future regulatory environment impacting the Australian telecommunications industry in general and us in particular. The regulatory environment we operate in has a significant impact on our future performance. There are several key regulatory decisions, whether recently made or pending, which will shape the future of our Company. We are currently in discussions with the regulators, which we hope will advance the best interests of our shareholders, customers and the nation.

LIKELY DEVELOPMENTS AND PROSPECTS

The directors believe, on reasonable grounds, that Telstra would be likely to be unreasonably prejudiced if the directors were to provide more information than there is in this report or the financial report about:

- the likely developments and future prospects of Telstra's operations; or
- the expected results of those operations in the future.

EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs; other than:

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

The equity contribution deed (ECD) entered into by us and FOXTEL's other ultimate shareholders, News Corporation Limited and Publishing and Broadcasting Limited has been terminated. Under this arrangement, recourse to our controlled entity Telstra Media Pty Ltd, as a FOXTEL partner, is limited to the assets of the FOXTEL Partnerships.

DETAILS ABOUT DIRECTORS AND EXECUTIVES

Changes to the directors of Telstra Corporation Limited during the financial year and up to the date of this report were:

- John E Fletcher resigned as director on 30 June 2006;
- Peter J Willcox was appointed as director on 17 May 2006;
- John D Zeglis was appointed director on 17 May 2006;
- John T Ralph retired as director on 11 August 2005;
- Anthony J Clark retired as director on 11 August 2005;
- Solomon D Trujillo was appointed CEO and executive director on 1 July 2005; and
- Zygmunt E Switkowski resigned as CEO and executive director on 1 July 2005.

Information about directors and senior executives is provided as follows and forms part of this report:

- names of directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given on pages 34 to 35;
- number of Board and Committee meetings and attendance by directors at these meetings is provided on page 42;
- details of director and senior executive shareholdings in Telstra are shown on page 43; and
- details of director and senior executive remuneration is detailed in the remuneration report on pages 44 to 59.

COMPANY SECRETARY

The qualifications, experience and responsibilities of our company secretary are provided on page 35 and forms part of this report.

DIRECTORS' AND OFFICERS' INDEMNITY

Constitution

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer provided that:

- the liability is not owed to us or a related body corporate;
- the liability is not for a pecuniary penalty or compensation order made by a Court under the Corporations Act 2001; and
- the liability does not arise out of conduct involving a lack of good faith.

Our constitution also provides for us to indemnify each officer, to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or alternate director of a company which is not related to us, our constitution provides for us to indemnify the officer or employee out of our property for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer's or employee's capacity as a director of that other company. It is also subject to any corporate policy made by our CEO. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in our constitution.

Deeds of indemnity in favour of directors, officers and employees

Telstra has also executed deeds of indemnity in favour of:

- directors of the Telstra Entity (including past directors);
- secretaries and executive officers of the Telstra Entity (other than Telstra Entity directors) and directors, secretaries and executive officers of our wholly owned subsidiaries;
- directors, secretaries and executive officers of a related body corporate of the Telstra Entity (other than a wholly owned subsidiary) while the director, secretary or executive officer was also an employee of the Telstra Entity or a director or employee of a wholly owned subsidiary of the Telstra Entity (other than Telstra Entity directors); and
- employees of Telstra appointed to the boards of other companies as our nominees.

Each of these deeds provides an indemnity on substantially the same terms as the indemnity provided in the constitution in favour of officers. The indemnity in favour of directors also gives directors a right of access to Board papers and requires Telstra to maintain insurance cover for the directors.

Additionally, Telstra has executed an indemnity in favour of employees (including executive officers other than directors) in respect of liabilities incurred in the formulation, entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991 (Cwth)). This indemnity would cover liabilities incurred by an employee in connection with the proposed sale by the Commonwealth of its remaining shareholding in Telstra. The indemnity is subject to an exclusion for liabilities arising out of conduct involving a lack of good faith.

In April 2006, the Commonwealth Government executed a Deed of Indemnity in favour of the directors of Telstra to cover liabilities incurred by those directors in connection with a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991 (Cwth)). This indemnity is subject to certain limited exclusions described in the Deed. The Commonwealth also executed a similar indemnity in favour of "Telstra Executives" (as defined in the Deed). The class of "Telstra Executives" includes persons who are likely to be involved in enabling Telstra to assist the Commonwealth in relation to a Telstra Sale Scheme.

Directors' and officers' insurance

Telstra maintains a directors' and officers' insurance policy that, subject to some exceptions, provides worldwide insurance cover to past, present or future directors, secretaries or executive officers of the Telstra Entity and its subsidiaries. Telstra has paid the premium for the policy. The directors' and officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Telstra's operations are subject to some significant environmental regulation under Commonwealth, State and Territory law, particularly with regard to:

- the impact of the rollout of telecommunications infrastructure;
- site contamination; and
- waste management.

Telstra has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

The directors are not aware of any significant breaches of environmental regulation during the financial year.

AUDIT AND NON-AUDIT SERVICES

The Auditor-General and Ernst & Young are authorised to perform all audit services, including an examination or review of the financial statements of the Company in accordance with the laws and rules of each jurisdiction in which filings are made for the purpose of expressing an opinion on such statements.

The Audit Committee approves the provision of recurring audit services as part of the annual approval of the audit plan. Additional audit and non-audit services are pre-approved by the Audit Committee provided they fall within a defined list of services specified by the Audit Committee. Those additional audit and non-audit services that are not listed have to be specifically approved by the Audit Committee prior to the commencement of any engagement. In addition, all non-audit services with a value over \$100,000 must be separately approved by the Audit Committee, even if the service is listed as a pre-approved service.

The Auditor-General does not provide non-audit services. Ernst & Young does provide non-audit services, but are specifically prohibited from performing any of the following services:

- bookkeeping services and other services related to preparing Telstra's accounting records of financial statements;
- financial information system design and implementation services;
- appraisal or valuation services, fairness opinions, or contribution in kind reports;
- actuarial services;
- internal audit services;
- management function or human resources;
- broker or dealer, investment adviser, or investment banking services;
- taxation advice of a strategic or tax planning nature; and
- legal services or expert services unrelated to the audit.

In addition, Ernst & Young may only provide non-audit services if the performance of the non-audit service will not cause the total annual revenue to Ernst & Young from non-audit work to exceed the aggregate annual amount of Ernst & Young's audit fees. The Audit Committee will not approve the provision of a non-audit service by Ernst & Young if the provision of the service would compromise Ernst & Young's independence.

The provision of non-audit services by Ernst & Young is monitored by the Audit Committee via bi-annual reports to the Audit Committee. In addition, where engagements involve services from the defined list of services, these are reported to the Audit Committee at the following meeting.

The Audit Committee expects the Auditor-General and requires Ernst & Young to submit annually to the Audit Committee a formal written report delineating all relationships between the Auditor-General, Ernst & Young and the Telstra Group. This includes:

- a listing of all audit and non-audit fees billed by the Auditor-General and Ernst & Young in the most recent fiscal year;
- a statement on whether the Auditor-General and Ernst & Young are satisfied that the provision of the audit and any non-audit services is compatible with auditor independence; and
- a statement regarding the Auditor General's and Ernst & Young's internal quality control procedures.

A copy of the independence of the auditor declaration is set out on page 43 and forms part of this report.

The Audit Committee submits annually to the Board a formal written report detailing the nature and amount of any non-audit services rendered by Ernst & Young during the most recent fiscal year and an explanation of why the provision of these non-audit services is compatible with auditor independence. If applicable, the Audit Committee recommends that the Board take appropriate action in response to the Audit Committee's report to satisfy itself of Ernst & Young's independence.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are located in note 8 to our financial statements.

For the reason set out above, the directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 June 2006 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

ROUNDING OF AMOUNTS

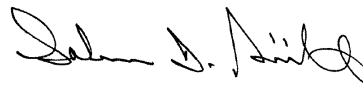
The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission class order 98/100, dated 10 July 1998 and issued pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars, except where otherwise indicated.

This report is made in accordance with a resolution of the directors.



Donald McGauchie
Chairman

10 August 2006



Solomon D Trujillo
Chief Executive Officer and Executive Director

10 August 2006

DIRECTORS' PROFILES

As at 10 August 2006, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected ⁽¹⁾
Donald G McGauchie	56	Chairman	1998	2005
Solomon D Trujillo ⁽²⁾	54	CEO and Executive Director	2005	–
Belinda J Hutchinson	53	Director	2001	2004
Catherine B Livingstone	50	Director	2000	2005
Charles Macek	59	Director	2001	2004
John W Stocker	61	Director	1996	2003
Peter J Willcox ⁽³⁾	60	Director	2006	–
John D Zeglis ⁽³⁾	59	Director	2006	–

(1) Other than the CEO, one third of directors are subject to re-election by rotation each year.

(2) Solomon D Trujillo was appointed CEO and executive director on 1 July 2005.

(3) In accordance with our constitution, Peter Willcox and John Zeglis have been appointed to fill interim positions and will stand for election at the 2006 annual general meeting.

A brief biography for each of the directors as at 10 August 2006 is presented on pages 34 to 35.

DIRECTORS' MEETINGS

Each director attended the following Board and committee meetings during the year as a member of the Board or relevant committee:

	Board		Committees ⁽⁵⁾							
	a	b	Audit		Nominations		Remuneration		Technology	
	a	b	a	b	a	b	a	b	a	b
D G McGauchie	13	13	–	–	4	4	4	4	–	–
J T Ralph ⁽¹⁾	1	1	1	1	2	2	2	2	–	–
A J Clark ⁽¹⁾	1	1	–	–	–	–	–	–	–	–
S D Trujillo ⁽²⁾	13	13	–	–	–	–	–	–	–	–
J E Fletcher ⁽³⁾	13	13	–	–	4	4	4	4	–	–
B J Hutchinson	13	13	6	6	–	–	–	–	–	–
C B Livingstone	13	13	6	6	–	–	–	–	2	2
C Macek	13	13	6	6	4	4	4	4	–	–
J W Stocker	13	13	6	6	–	–	–	–	2	2
P J Willcox ⁽⁴⁾	2	2	–	–	–	–	–	–	–	–
J D Zeglis ⁽⁴⁾	2	2	–	–	–	–	–	–	–	–

Column a: number of meetings held while a member.

Column b: number of meetings attended.

(1) Retired from the Board on 11 August 2005.

(2) Appointed CEO and executive director on 1 July 2005.

(3) Resigned from the Board on 30 June 2006.

(4) Appointed to the Board on 17 May 2006.

(5) Committee meetings are open to all directors to attend in an ex officio capacity.

DIRECTOR AND SENIOR EXECUTIVE SHAREHOLDINGS IN TELSTRA

As at 10 August 2006:

Directors

	Number of shares held		Total
	Direct interest	Indirect interest ⁽¹⁾	
Donald G McGauchie	1,866	55,775	57,641
Solomon D Trujillo	–	–	–
Belinda J Hutchinson	38,912	35,866	74,778
Catherine B Livingstone	11,637	23,051	34,688
Charles Macek	–	48,576	48,576
John W Stocker	2,953	94,288	97,241
Peter J Willcox	–	10,000	10,000
John D Zeglis	–	–	–

(1) Shares in which the director does not have a relevant interest, including shares held by the director related entities, are excluded from indirect interest.

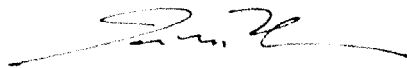
Senior executives

	Number of shares held		Total
	Direct interest	Indirect interest ⁽¹⁾	
Bruce Akhurst	4,880	17,000	21,880
Deena Shiff	5,680	–	5,680
David Moffatt	147,900	–	147,900
Kate McKenzie	–	–	–
John Stanhope	57,221	–	57,221
David Thodey	63,462	800	64,262
Gregory Winn	–	–	–

(1) Shares in which the senior executive does not have a relevant interest, including shares held by related entities of the executive, are excluded from indirect interest.

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF TELSTRA CORPORATION LIMITED

In relation to my audit of the financial report of Telstra Group (comprising Telstra Corporation Limited and the entities it controlled during the year) for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ian McPhee
Auditor-General
10 August 2006
Canberra, Australia

Remuneration report

The Remuneration Report forms part of the Directors' Report and is set out under the following headings:

REMUNERATION AT TELSTRA

- The Remuneration Committee
- Remuneration policy
- Changes to the remuneration strategy

CEO AND SENIOR EXECUTIVES

- Remuneration strategy
- Remuneration structure
- Linking the remuneration structure to the business strategy
- Remuneration mix
- Fixed remuneration
- Short term incentive (STI)
- Long term incentive (LTI)

RELATIONSHIP BETWEEN REMUNERATION AND TELSTRA'S PERFORMANCE

- Defining "company performance"
- Remuneration vs company performance

DETAILS OF SENIOR EXECUTIVES' REMUNERATION

- Contract arrangements
- Relocation costs associated with overseas senior executives

NON-EXECUTIVE DIRECTORS

- Remuneration policy and strategy
- Remuneration structure
- Retirement benefits
- Other benefits
- Details of non-executive directors' remuneration

This report for the year ended 30 June 2006 was prepared by the directors in accordance with the Corporations Act 2001. Under AASB 124 "Related Party Disclosures" (AASB 124), we are required to disclose remuneration details for our "key management personnel" (KMP). In addition to the directors, our KMP also includes the Chief Operating Officer and the Group Managing Directors listed in Figure 17. For the remainder of this report the KMP (other than the directors) will collectively be referred to as senior executives.

REMUNERATION AT TELSTRA

Telstra proactively manages executive and director remuneration arrangements to ensure that their remuneration is a key element supporting our business strategy by aligning reward to the achievement of strategic objectives. We also ensure that it is competitive in the markets we draw our talent from and that the needs of all stakeholders are taken into consideration when remuneration decisions are made.

THE REMUNERATION COMMITTEE

The policy, strategy and structure for the Board, CEO and senior executive remuneration is overseen and regularly reviewed by the Board's Remuneration Committee.

The Telstra Board Remuneration Committee (Committee) is responsible for reviewing and recommending to the Board the remuneration policy, strategy and structure for Telstra's Board, the CEO and senior executives. The Committee's roles and responsibilities, composition and membership is detailed on our website. The Committee also has a responsibility to ensure that our remuneration

strategy considers corporate governance principles and expectations of stakeholder bodies.

Any decision made by the Committee concerning an individual executive's remuneration is made without that executive being present.

REMUNERATION POLICY

The remuneration policy consists of principles that guide the Committee in its deliberations, and which should be taken into consideration when formulating the strategy and structure of remuneration.

The Committee is guided by the following principles when formulating remuneration strategy and structure.

Senior executive remuneration should:	Non-executive director remuneration should:
<ul style="list-style-type: none"> • reflect the size and scope of the role and be market competitive in order to attract and retain talent • be competitive in domestic and global markets • motivate executives to deliver short and long term business objectives • be aligned with shareholder value creation • be differentiated based on individual performance 	<ul style="list-style-type: none"> • be distinguished from executive remuneration • be fee based, not performance based • be partly remunerated in the form of equity in order to align with the returns to shareholders

CHANGES TO THE REMUNERATION STRATEGY

In line with major changes to Telstra's business strategy this fiscal year, we have reviewed and updated our remuneration structure.

During fiscal 2006 the Board approved a new business strategy for Telstra. The new strategy will transform the company over several years in order to meet the challenges of a competitive global market.

With the new business strategy significantly changing the company's commercial and operational focus, it was important to update the metrics used to determine incentive outcomes to give appropriate weight to Telstra's new priorities. In parallel with the development of the business strategy, the Committee commissioned an extensive review of the remuneration strategy.

The focus of the remuneration review was to advise on contemporary market practice, the relationship between fixed and variable remuneration and the measures which would drive remuneration outcomes in the context of a significant strategic realignment of the business. The aim was to reward the CEO and senior executives on the delivery of transformational and operational outcomes in line with the key elements of the new business strategy. An additional objective of the review was to link the successful delivery of the transformation to future shareholder wealth creation. Management, with input from an external remuneration consultant, formally presented the results of the review to the Committee in December 2005.

The review concluded that the CEO and senior executive remuneration strategy would need to have increased flexibility in order to:

- focus on achieving long term transformation of the company while delivering on short term performance;
- reinforce and reward performance measures that will evolve with the company's changing objectives;
- attract and retain world-class executive talent; and
- support a variety of employment arrangements and durations.

Introduction of new performance measures

The three elements of Telstra's remuneration structure – fixed remuneration, short term incentives (STI) and long term incentives (LTI) – complement each other and will support the execution of business strategy in both the short and long term. These elements are consistent with previous years' incentive plans. However, new performance measures (which are discussed in detail later in this report) have been introduced to encourage executives to focus on key business outcomes and to ensure that reward payouts occur when the company and the individual achieve the transformational and operational goals set by the Board.

Figure 1 below illustrates how the remuneration strategy and structure are aligned to, and support, the business strategy through the use of performance measures.

CEO AND SENIOR EXECUTIVES

REMUNERATION STRATEGY

Our remuneration strategy for the CEO and senior executives includes performance measures that are aligned to the key elements of Telstra's new business strategy.

The senior executive remuneration strategy has been repositioned to drive the delivery of the transformation milestones that have been outlined in Telstra's business strategy. Over the next 3 – 5 years, the remuneration strategy will be based on performance measures that are strongly aligned to those transformation outcomes as well as on other traditional business measures. The weighting of performance measures is expected to evolve over time from initial weighting on transformation measures to:

- operational measures for the STI; and
- growth and return measures for the LTI.

Figure 2 below shows the proportion of the STI and LTI that depends on transformation measures for fiscal 2006. It is also indicative of how the emphasis on the transformation measures will diminish progressively as our transformation milestones are achieved. (However, it is not intended to represent future weightings of remuneration elements.)

Figure 1: Alignment of the business and remuneration strategies

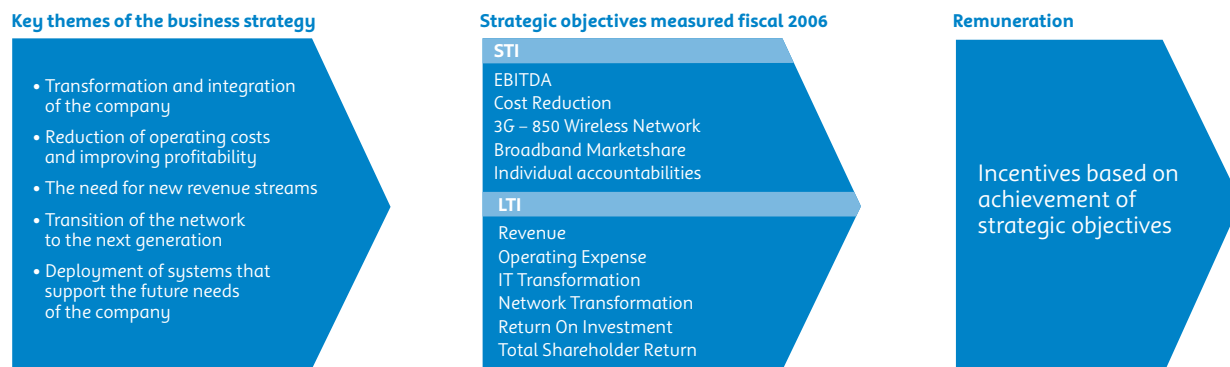
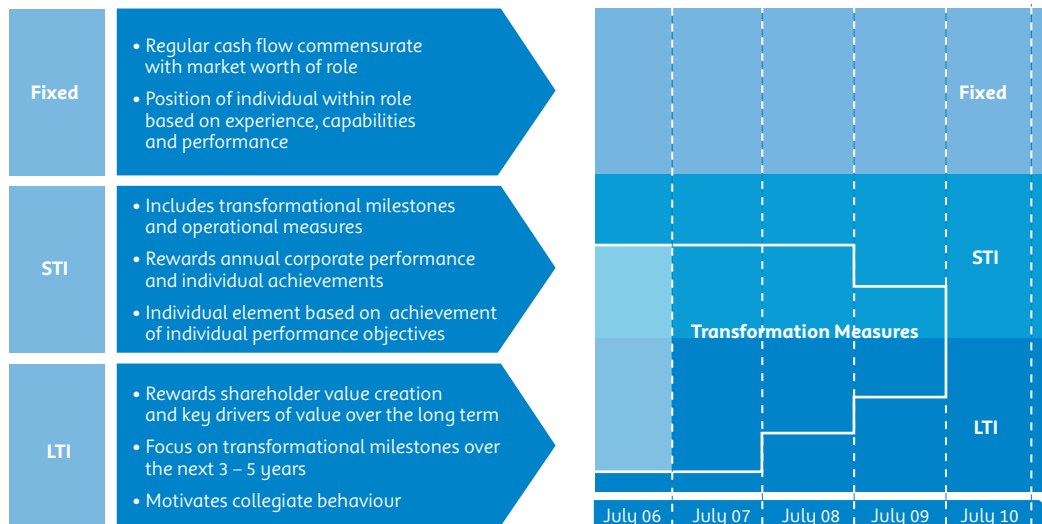


Figure 2: Remuneration structure that supports Telstra's transformational goals



REMUNERATION STRUCTURE

The remuneration structure ensures that rewards are linked to strategic outcomes.

When reviewing the structure and mix of the remuneration packages of the CEO and senior executives, the Committee takes into account:

- remuneration practices in other major corporations in Australia (in terms of both salary levels and the ratio between fixed and “at risk” components);
- remuneration practices of global corporations within our comparative peer group; and
- a range of macro-economic indicators used to determine likely movements in broad salary rates.

For fiscal 2006, the remuneration structure for the CEO and senior executives consisted of:

- fixed remuneration;
- short term incentive (“at risk”); and
- long term incentive (“at risk”).

LINKING THE REMUNERATION STRUCTURE TO THE BUSINESS STRATEGY

The main benefits of linking senior executives’ rewards to specific performance measures are to increase focus and understanding by senior executives of the key strategic objectives of the business and provide motivation by rewarding employees on strategy execution.

Figure 3 below shows in detail how the remuneration structure is designed to satisfy the requirements of the new business strategy, by setting and monitoring specific performance measures for the various elements of remuneration.

Ordinarily, the Committee considers, and recommends to the Board, the measures and targets for the incentive plans during the annual budget setting process. However, for fiscal 2006, the Committee considered the remuneration strategy in parallel with the strategic review of the company. The Committee recommended that the incentive measures should focus on the transformation through to fiscal 2010. The fiscal 2010 strategic targets outlined to shareholders in November 2005 were used as a starting point to determine the fiscal 2006 STI and LTI performance measures.

Figure 3: Performance measures selected to ensure a focus on key business strategies

Remuneration element	Performance measures	How is it measured?	Link to business strategy
STI (Cash)	Company Financial	EBITDA – Earnings before interest, tax, depreciation, amortisation.	To achieve earnings objective.
	Cost Reduction	Amount of accelerated cost savings.	To identify and deliver near term operating cost saving benefits that enable investment in transformation initiatives.
	3G – 850 Network	The number of sites that are 3G equipped and receiving transmission.	To deliver on the wireless strategy that enables mobile revenue growth, reduces cost and optimises the mobile business.
	Broadband marketshare	The increase in Telstra’s share of retail broadband customers.	To achieve an increase in Telstra’s retail broadband marketshare.
	Individual accountabilities	The achievement of personal goals which include business unit specific targets.	To align the individual’s personal goals with the business’ goals.
LTI (Performance Rights)	Revenue Growth	The year over year revenue growth rate over the periods – 3 and 5 years.	To drive the development of new revenue and overall growth.
	Operating Expense	The total operating expense growth rate over the periods – 3 and 5 years.	To drive cost control and restructure the cost base of the company.
	IT Transformation milestones	The time taken to achieve a targeted reduction of Business Support Systems (BSS) and Operational Support Systems (OSS).	To reduce complexity, reduce cost and provide an enhanced customer experience by reducing the number of systems.
	Network Transformation milestones	The time taken to achieve network simplification and build a new platform.	To simplify the network to reduce complexity and cost, while providing a new platform for revenue growth.
	Return on Investment (ROI) over 3 years	EBIT over Average Investment (Average of Net Debt plus Shareholder Funds).	To measure the return gained from the financial investment in the transformational goals.
	Total Shareholder Return (TSR) Growth over 5 years	Absolute growth in share price and accumulated dividends from 19 August 2005.	To measure the value derived from execution of the business strategy.

To link the remuneration structure to business strategy, the Committee prioritised the business’ strategic objectives by considering:

- what could be measured;
- what objectives would have the greatest impact; and
- what aggregate of measures would best support the key themes of the strategy.

At the end of each financial year, the Committee reviews the company’s audited financial results and the results of the other performance measures, and assesses performance against each measure to determine the percentage of STI and LTI that is payable. Measures are tracked by an internal project office and, where appropriate, the achievement against targets will be independently audited.

In the case of Bruce Akhurst the STI is measured against specific financial metrics for Sensis in lieu of the Telstra financial and transformational measures detailed above. Sensis EBIT contribution and Cashflow make up 80% of his STI and the remaining 20% is based on individual accountabilities.

To ensure the continued alignment of transformation objectives, the creation of value and executive reward, the Committee initiated a review of the linkage between the remuneration strategy and business strategy. Any changes to the remuneration strategy as a result of this review will be reported to shareholders.

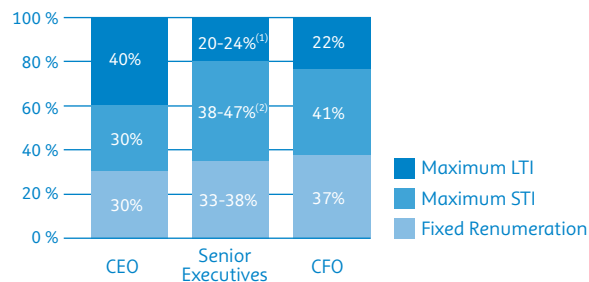
REMUNERATION MIX

Executive remuneration is composed of both “fixed” and “at risk” elements.

The remuneration mix describes the ratio of the different components of an executive’s pay. To strengthen the link to company performance, the Board has determined that a significant proportion of the total remuneration for the CEO and senior executives should be “at risk” representing components that are awarded based on performance. This means senior executives can only earn significant rewards if pre-determined company measures and targets are achieved. The “at risk” components of a senior executive’s remuneration package are calculated by reference to that individual’s fixed remuneration.

Figure 4 below shows the remuneration mix based on the maximum level of reward for the CEO and senior executives.

Figure 4: Telstra’s remuneration mix



- (1) The value of LTI granted. Performance targets must be met before any of this value vests to the executive over 3 and 5 years.
- (2) The maximum amount that could be payable should all STI targets be met.

If the minimum performance level is not achieved, no STI or LTI will be awarded and the executive receives 100% of fixed remuneration and 0% of their “at risk” remuneration. The percentage of “at risk” pay increases with the increase in accountability.

FIXED REMUNERATION

Fixed remuneration is in line with similar roles in the applicable market.

Fixed remuneration is made up of:

- base salary including salary sacrifice benefits and applicable fringe benefits tax; and
- superannuation.

Fixed remuneration is influenced by the scope of the role and the knowledge, skills and experience required of the position holder. To ensure remuneration is market competitive, the Committee takes into account local, home country and global market rates. In determining what market rates to use for comparison purposes the Committee assesses a range of factors including company size (based on market capitalisation), industry in which the comparative company operates and global footprint.

For superannuation, in addition to mandatory contributions, the CEO and senior executives may contribute additional amounts, subject to legislative requirements.

Fixed remuneration is reviewed annually as part of the company’s overall remuneration review process and is assessed against the company’s and the individual’s performance.

For fiscal 2006, the CEO was responsible for reviewing and determining the remuneration of the company secretary. However, the remuneration policy described in this report in relation to the senior executives and the discussion of the relationship between that policy and our performance applies to the company secretary. The company secretary participates in the STI plan and the LTI plan on the terms set out in this report.

SHORT TERM INCENTIVE (STI)

The STI component delivers reward on achievement of annual performance targets.

The STI is an annual “at risk” component of remuneration for the CEO and senior executives. During fiscal 2006, the Committee ceased the Short Term Incentive Equity (STIE) Plan. As such the annual STI payment for fiscal 2006 is delivered in cash, compared with fiscal 2005 when the STI was delivered half in cash and half in equity instruments. The objective of the STI plan is to encourage executives to meet annual business objectives and their own individual performance targets.

How STI is calculated

The CEO and senior executives’ STI payment is based on their fixed remuneration, individual STI opportunity (explained on page 48) and achievements against performance measures. This is illustrated in Figure 5.

Figure 5: Calculating the STI payment



Figure 6: STI opportunity for differing levels of performance

Level of performance (% of STI opportunity)	Description	CEO (% of fixed remuneration)	Senior Executives (% of fixed remuneration)
Gateway (25%)	The “gateway” level must be reached before any value can be attributed to each measure.	25%	25% – 35%
Target (50%)	The “target” level represents challenging but achievable levels of performance.	50%	50% – 70%
Maximum (100%)	Achievement of the “maximum” level requires significant performance above and beyond normal expectations and will result in significant improvement in key operational areas.	100%	100% – 140%

STI opportunity and performance levels required

Depending on the role they perform, each senior executive has an STI opportunity ranging from 100% – 140% of fixed remuneration where maximum performance is met. The maximum STI opportunity varies according to the role. As illustrated in Figure 6 above, each of the performance measures has three different levels of performance.

The level of performance determines the level of payment against each weighted measure. Achieving the target level of performance on each measure therefore equates to 50% of an individual’s maximum STI payment.

The STI performance measures

Performance against specific measures is assessed before any individual’s STI payment can be determined. The individual accountabilities for the CEO are determined by the Board and that of the senior executives are determined by the CEO. All individual measures are strongly aligned to the individual’s contribution towards corporate and business unit objectives.

STI payment for the CEO

The CEO’s contract provides for an STI payment for fiscal 2006 of up to a maximum of \$3 million, of which \$1.5 million was paid on commencement of employment. The initial \$1.5 million was paid subject to the successful delivery of the new business strategy and transformation plan for the company. This payment was disclosed in the 2005 Remuneration Report.

The remaining maximum potential payment of \$1.5 million will be paid subject to the CEO satisfying the performance measures described in Figure 3 on page 46.

LONG TERM INCENTIVE (LTI)

The LTI is the second “at risk” component of remuneration and it is delivered in the form of performance rights for fiscal 2006. Performance rights are the right to acquire a Telstra share at minimal cost to the employee (\$1 exercise price per parcel of shares exercised on any single day) when specified performance measures are achieved. The performance rights are administered through the Telstra Growthshare Trust.

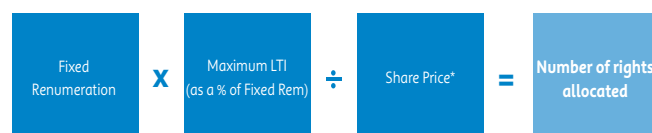
In prior years the equity instruments allocated as part of the LTI plans included restricted shares, options, deferred shares and performance rights.

The LTI plan supports the business strategy by aligning executive compensation with key performance measures and targets that support the transformation. The LTI is limited to the 220 most senior employees, as this group is responsible for leading the transformation and will drive the success of the business.

How performance rights are allocated

The CEO and senior executives receive an allocation of performance rights that is calculated as a percentage of their fixed remuneration.

Figure 7: Calculating the allocation of performance rights

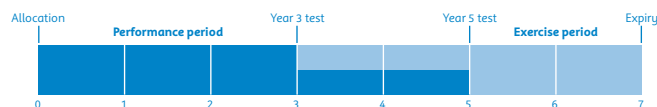


* The full market value of a Telstra share is used when we allocate performance rights (5 day volume weighted average share price). This differs from the accounting value under the executive remuneration table in Figure 17 on page 52, which reflects the amortised accounting valuation of these rights and any other LTI equity granted in previous years.

Vesting

The performance rights that the CEO and senior executives receive will vest depending upon the company’s achievement of the relevant performance measures. Performance rights that have vested means that the executive has a full interest in the right and is free to exercise the right at any time until the expiry date. The allocation, test and expiry dates are illustrated in Figure 8 below.

Figure 8: Performance right timeline



The value of the LTI at vesting

The actual value to the executive of the LTI at vesting can be calculated using the formula in Figure 9 below.

Figure 9: Determining the market value of performance rights at vesting dates



*This value is likely to be different from the values at allocation and the accounting values disclosed in the remuneration table in Figure 17 on page 52.

Figure 10: LTI vesting arrangements for fiscal 2006

	Year 3	Year 5
Target not achieved	<ul style="list-style-type: none"> 25% of performance rights for Year 3 tranche lapses. The remaining 75% of performance rights will be added to the Year 5 tranche and may vest based on performance against the Year 5 performance scale. 	<ul style="list-style-type: none"> All unvested performance rights will lapse.
Target achieved but below Maximum	<ul style="list-style-type: none"> The number of performance rights vest on a scale between Target and Maximum. Any performance rights that do not vest will be discounted by 25% and the balance added to the Year 5 tranche and may vest on the Year 5 performance scale for each measure. 	<ul style="list-style-type: none"> For the Year 5 tranche the number of performance rights vest on a scale between Target and Maximum. The carried forward Year 3 balance will be added to the Year 5 tranche and assessed against the Year 5 performance targets. Any performance rights that do not vest as a result of not reaching the Maximum of the Year 5 hurdle will lapse.
Maximum achieved	<ul style="list-style-type: none"> All performance rights for the Year 3 tranche (up to 60% of the 2005 allocation) will vest if all maximum targets are achieved. 	<ul style="list-style-type: none"> All performance rights for the Year 5 tranche (up to 40% of the 2005 allocation), and any remaining Year 3 tranche, will vest if all maximum targets are achieved.

The LTI performance measures

Similar to the STI plan, the LTI performance measures are also linked to the business strategy and transformation of the company. This approach ensures that any rewards derived from the LTI plan by the senior executives are consistent with the successful execution of the initiatives over a number of years. Successful execution of the initiatives should, in turn, drive sustainable increases in shareholder wealth.

The measures will be assessed based on a scale of performance at 30 June 2008 and 30 June 2010. The vesting arrangements are explained in Figure 10 above.

Exercising performance rights

A performance right can only be exercised (that is, a share can only be acquired by the executive) if the performance right vests. Once vested, the performance right can be exercised by the executive at any time up to 7 years from the grant date. Once the performance rights have been exercised the participant becomes the beneficial owner and is entitled to any dividend, bonus issue, return of capital or other distribution in respect of those shares.

Restrictions on hedging

The CEO and senior executives are restricted from entering into arrangements which effectively operate to limit the economic risk of their security holdings in shares allocated under the LTI plan during the period the shares are held in trust.

Lapsed performance rights

Where a performance right does not vest by year 5, because the performance measures have not been achieved, the right will lapse and no benefit will accrue to the executive.

If the CEO or a senior executive:

- resigns and their performance rights are not yet exercisable, those rights will lapse;
- retires or ceases employment due to death or total permanent incapacity, and their performance rights are not yet exercisable, those rights will be exercisable if the relevant performance measure is met in accordance with the prescribed schedule;

- is made redundant, and their performance rights are not yet exercisable, the number of unvested rights is adjusted to reflect the executive's service period and will be exercisable if the relevant performance measure is met in accordance with the prescribed schedule; or
- ceases employment with Telstra for any other reason and their performance rights are not yet exercisable, the Board will decide whether those rights should lapse or remain available for exercise if the relevant performance measure is met.

RELATIONSHIP BETWEEN REMUNERATION AND TELSTRA'S PERFORMANCE

The payment levels of the "at risk" components of remuneration should reflect Telstra's corporate performance.

DEFINING "COMPANY PERFORMANCE"

Telstra ultimately assesses its company performance by reference to increases in "shareholder wealth" and "earnings".

Shareholder wealth

Shareholder wealth is the total return to an investor over a given period. It consists of three components: dividends paid, the movement in the market value of shares over that period, and any return of capital to shareholders, excluding buy-backs.

Dividends paid

Over the five years to 30 June 2006 we have increased the total amount returned to shareholders through dividends and special dividends each year. Our total dividends paid per share each fiscal year for the last five years is shown in Figure 11 on page 50.

Market value of shares

During fiscal 2006 Telstra's daily closing share price has fluctuated between a low of \$3.63 and a high of \$5.14. Figure 11 on page 50 shows the share price on 30 June for the last five years.

Figure 11: Share price at year end and dividends paid per share for the last 5 years

	Year ended 30 June 2006	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2003	Year ended 30 June 2002
Share Price (\$)	3.68	5.06	5.03	4.40	4.66
Total dividends paid/declared per share (c)	34.0	40.0	26.0	27.0	22.0

Return of capital

During the five years to 30 June 2006 we undertook two off-market share buy-backs as part of our capital management strategy, returning \$1,751 million (excluding associated costs) to shareholders. All ordinary shares bought back were subsequently cancelled.

Figure 12: Share buy back

Date	Number of ordinary shares bought back	Cost		Buy-back price per share \$	Franked dividend component per share \$	Capital component per share \$
		Purchase consideration \$m	Transaction costs \$m			
24 Nov 2003	238,241,174	1,001	8	4.20	2.70	1.50
15 Nov 2004	185,284,669	750	6	4.05	2.55	1.50

EARNINGS

Our company's earnings over the five years to 30 June 2006 are summarised in Figure 13 below.

Figure 13: Our 5 year earnings history

	Year ended 30 June 2006 \$m	Year ended 30 June 2005 \$m	Year ended 30 June 2004 \$m ⁽¹⁾	Year ended 30 June 2003 \$m ⁽¹⁾	Year ended 30 June 2002 \$m ⁽¹⁾
Sales revenue	22,750	22,161	20,737	20,495	20,196
EBITDA	9,584	10,464	10,175	9,170	9,483
Net profit available to Telstra	3,181	4,309	4,118	3,429	3,661

(1) During fiscal 2006, we adopted Australian equivalents to International Financial Reporting Standards (A-IFRS). We restated our comparative information for the year ended 30 June 2005. The previous financial years ended 30 June 2004, 30 June 2003 and 30 June 2002 are presented under the previous Australian Generally Accepted Accounting Principles (AGAAP).

REMUNERATION VS COMPANY PERFORMANCE

Telstra's remuneration strategy aligns with the new business strategy by assigning clear transformational and operational targets with longer term objectives which will deliver increases in shareholder wealth.

As stated in our remuneration strategy, a significant proportion of the CEO and senior executives' total remuneration depends on the achievement of specific short and long term targets.

STI results and payments

Financial measures have represented a significant percentage of the STI plan over the last five years and therefore financial performance has a direct impact on the rewards received through the plan. The financial measures:

- provide a strong correlation with our ability to increase shareholder returns;

- have a direct impact on our bottom line; and
- are measures over which the executives can exercise control.

The average STI received by senior executives as a percentage of the maximum achievable payment for achieving those short term measures is reflected in Figure 14 below.

The calculation below is made by aggregating the actual STI payments to the CEO and senior executives for the financial year and dividing that by the aggregate maximum achievable payments for those same executives. The result is then expressed as a percentage of the maximum achievable STI payment.

Figure 14: Average STI payment as a % of maximum payment

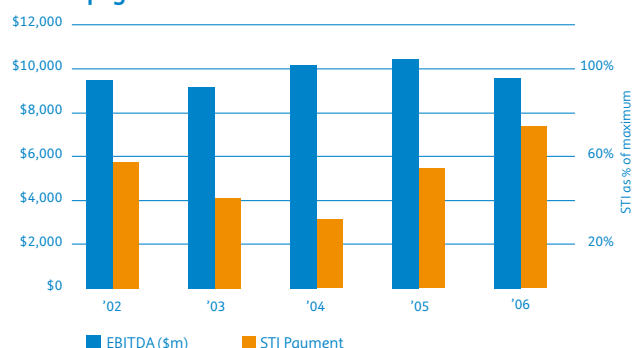
	Fiscal 2006	Fiscal 2005	Fiscal 2004	Fiscal 2003	Fiscal 2002
STI received	73.8%	54.6% ⁽¹⁾	31.4%	41.1%	57.6%

(1). This includes both the cash and equity components for fiscal 2005. While the total equity component is included in determining the above percentage, the value of the rights to Telstra shares granted in fiscal 2005 will be reflected in remuneration over the following 3 years as the shares vest over their performance period.

Relationship between company performance and STI payments

Figure 15 below demonstrates the relationship between the company's performance in the form of EBITDA and the percentage of STI payments that were made in each fiscal year.

Figure 15: Relationship between company performance (EBITDA) and STI payments



LTI results and payments

Any LTI awarded to an executive is required to be reported in accordance with International Financial Reporting Standards (IFRS). This requires a value to be attributed to the LTI equity granted before vesting has occurred. That value is then amortised over the vesting period (ie the five-year performance period for fiscal 2006 allocations). However, as vesting of any equity allocated under the LTI plans is subject to a range of internal and external performance measures, senior executives may or may not ultimately derive any value from these equity instruments.

As at 30 June 2006 the vesting status of LTI equity set out in Figure 16 below.

DETAILS OF SENIOR EXECUTIVES' REMUNERATION

Detailed explanation of the various components of remuneration received by the CEO and senior executives in fiscal 2006.

In this section we set out the remuneration of our CEO and the senior executives who are key management personnel. These executives had authority and responsibility for planning, directing and controlling the activities of Telstra and its controlled entities during

fiscal 2006. They also include the five highest remunerated executives.

Figure 17 on page 52 sets out the short term employee benefits, post-employment benefits and share-based remuneration received during the fiscal year as calculated under applicable accounting standards. It also details the remuneration components of those senior executives who ceased employment with Telstra during fiscal 2006 and would otherwise have been included in this report.

Figure 18 on page 53 sets out the details of the annual STI for fiscal 2006, and Figure 19 on page 53 sets out the amortised value of the CEO and senior executive allocations under the LTI plans.

Remuneration received in fiscal 2006

The remuneration of our key management personnel (excluding non-executive directors) are set out in the following tables. In accordance with the requirements of AASB 124, the remuneration disclosures for fiscal 2006 only include remuneration relating to the portion of the relevant periods that each individual was considered a KMP. As a result this approach can distort year-on-year remuneration comparisons.

Termination payments to Dr Switkowski in fiscal 2006

As specified in the remuneration report for fiscal 2005 Dr Switkowski ceased employment with the company on 1 July 2005 and was entitled to receive termination payments in accordance with his employment contract including:

- a termination payment of 12 months fixed remuneration – \$2,092,000; and
- accrued annual and long service leave – \$1,059,526.42.

These payments have been aggregated and appear in Figure 17 on page 52 under "Termination benefits" in accordance with the prescribed accounting standards.

Dr Switkowski also received a payment of \$1,961,000 under the 2004/05 STI plan. This payment is not included in Figure 17 on page 52 as it has previously been disclosed in the remuneration report for fiscal 2005.

In addition, and consistent with last years remuneration report, Figure 21 on page 55 shows Dr Switkowski's retained allocations of equity under the Deferred Remuneration and LTI plans.

Figure 16: LTI Status

Status of plan	Result	Next steps
The fiscal 2001 plans (September 2000 and March 2001*) did not meet the performance measure.	All instruments have lapsed.	The performance period for these plans expired in fiscal 2006 and both plans have ceased.
The fiscal 2002 plans (September 2001 and March 2002*) did not meet the performance measure in the first quarter of the performance period.	Half of all allocations lapsed.	For September 2001, the performance measures were subsequently achieved in fiscal 2005 and the remaining half of the allocations vested. The March 2002 plan performance measures are currently below the required performance hurdle.
The fiscal 2003 plan did not meet the performance hurdle in the first quarter of the performance period.	Half of all allocations lapsed.	The performance measures are currently below the required performance hurdle.
Fiscal 2004, 2005 and 2006 plans have yet to enter their respective performance periods.	No instruments have lapsed or vested yet.	Performance measures have not yet reached the assessment points.

*March allocations were mid-cycle allocations to accommodate new executives.

Figure 17: Senior executives' remuneration

Name		Short term employee benefits			Other ⁽⁴⁾ (\$)	Post-employment benefits Super-annuation ⁽⁵⁾ (\$)	Termination benefits (\$)	Other long term benefits Accrued long service leave (\$)	Equity settled share-based payments			Total (\$)
		Salary and fees ⁽¹⁾ (\$)	Short term incentives ⁽²⁾ (\$)	Non-monetary benefits ⁽³⁾ (\$)					Short term incentive shares ⁽⁶⁾ (\$)	Deferred shares ⁽⁷⁾ (\$)	Other equity ⁽⁸⁾ (\$)	
Solomon Trujillo – Chief Executive Officer	Commenced 1 July 2005	2,987,861	2,581,200	–	1,745,011	1,012,139	–	75,000	–	–	309,305	8,710,516
Bruce Akhurst – Chief Executive Officer, Sensis	Ongoing	984,974	1,519,035	11,740	–	188,026	–	29,325	276,443	115,592	650,036	3,775,171
Kate McKenzie – Group Managing Director, Telstra Wholesale	Appointed GMD 16 Jan 2006	223,280	180,950	–	–	20,787	–	6,026	22,067	–	30,871	483,981
David Moffatt – Group Managing Director, Telstra Consumer Marketing & Channels	Ongoing	876,970	1,019,991	18,138	–	316,030	–	29,825	131,095	129,101	779,461	3,300,611
Deena Shiff – Group Managing Director, Telstra Business	Ongoing	645,857	768,951	6,062	–	116,643	–	20,000	155,829	37,438	214,391	1,965,171
John Stanhope – CFO and Group Managing Director, Finance & Administration	Ongoing	919,499	655,412	9,668	–	101,001	–	25,825	126,792	76,968	335,804	2,250,969
David Thodey – Group Managing Director, Telstra Enterprise & Government	Ongoing	1,031,086	926,798	8,248	–	52,914	–	27,100	108,869	105,198	560,789	2,821,002
Gregory Winn – Chief Operating Officer	Commenced 11 Aug 2005	1,280,944	1,408,918	1,685	1,101,907	10,814	–	32,178	–	–	–	3,836,446
SUB-TOTAL		8,950,471	9,061,255	55,541	2,846,918	1,818,354	–	245,279	821,095	464,297	2,880,657	27,143,867
Past Employees												
Zygmunt Switkowski	Ceased 1 July 2005	5,451	–	35	–	281	3,151,526 ⁽⁹⁾	–	–	491,049 ⁽¹⁰⁾	4,516 ⁽¹¹⁾	3,652,858
SUB-TOTAL		5,451	–	35	–	281	3,151,526	–	–	491,049	4,516	3,652,858
TOTAL		8,955,922	9,061,255	55,576	2,846,918	1,818,635	3,151,526	245,279	821,095	955,346	2,885,173	30,796,725

(1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.

(2) Short term incentive relates to performance in fiscal 2006 and is based on actual performance for Telstra and the individual.

(3) Includes the benefit of interest-free loans under TESOP97 and TESOP99, the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra employment.

(4) Includes payments made to executives on commencement of employment with Telstra and relocation payments made in accordance with their relocation agreement and which are classified as remuneration under the accounting standards.

(5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.

(6) This represents the value of Short Term Incentive Shares allocated under the 2004/05 STI Equity plan whereby 50% of the STI payment was provided as shares to be distributed over 3 years at 12 month intervals. The values shown represent the annualised value for fiscal 2006 in accordance with the relevant accounting standards.

(7) The value included in deferred shares relates to the current year amortised value of vested and unvested shares issued in fiscal 2003 and fiscal 2004 under the Deferred Remuneration Plan. The values shown represent the annualised value for fiscal 2006 in accordance with the relevant accounting standards.

(8) The value represents the annualised value of restricted shares, performance rights and options as detailed in figure 21. The executive only receives value if the performance hurdles are met.

(9) Includes payments made on cessation of employment with Telstra in accordance with his employment contract. The payments include unused annual and long service leave and an eligible termination payment equal to 12 months fixed remuneration.

(10) The value represents the remaining amortised value of deferred shares which has been brought forward due to the early vesting of Deferred Shares following separation from Telstra.

(11) The value represents the pro-rated amortised value of restricted shares, options and performance rights following Dr Switkowski's separation from Telstra on 1 July 2005.

Figure 18: STI for fiscal 2006

Name	Maximum potential STI (\$)	Actual STI (\$)	% of the maximum potential
Solomon Trujillo	3,000,000*	2,581,200	86.0%
Bruce Akhurst	1,642,200	1,519,035	92.5%
Kate McKenzie	241,041	180,950	75.1%
David Moffatt	1,670,200	1,019,991	61.1%
Deena Shiff	1,120,000	768,951	68.7%
John Stanhope	1,055,294	655,412	62.1%
David Thodey	1,517,600	926,798	61.1%
Gregory Winn	2,030,000	1,408,918	69.4%

Where the actual STI payment is less than the maximum potential, (eg achieved performance was less than maximum performance level) the difference is forfeited and does not become payable in subsequent years.

The minimum value of the STI may be \$0 where the performance measures fail to meet the specified threshold levels.

* \$1,500,000 for strategic plan & \$1,500,000 based on fiscal 2006 performance measures.

Tax Equalisation of foreign earned income

As prefaced in their employment contracts, Mr Trujillo and Mr Winn received re-imbursement for the additional personal income tax payable due to a double taxing in Australia and the United States as a result of the international taxation rules covering foreign earned income. This only applies for fiscal 2006 as changes to the international taxation provisions come into effect on 1 July 2006 and no further payments will be required.

Equity valuations

Figure 19 below provides the amortised accounting value of all LTI equity instruments, including allocations of equity made from fiscal 2001 – 2006.

The senior executives have not received any monetary value from any of these equity grants apart from the September 2001

Performance Rights plan and the September 2002 Deferred Share plan (see Figure 20 on page 54), either because the LTI performance measures were not satisfied during the performance period or the performance period is continuing. The value attributed to the unvested instruments allocated on 8 September 2000 and 16 March 2001 only reflects the notional value until 8 September 2005 and 16 March 2006, respectively, when they lapsed.

Where allocations have been made to the CEO and senior executives for fiscal 2002, 2003, 2004, 2005 and 2006 and have not yet vested, the CEO and senior executives may or may not derive any value from these allocations as they are still subject to performance measures and the performance period has not yet expired.

Figure 19: Amortised accounting value of all LTI equity for fiscal 2006

	Amortised value of LTI equity allocations ⁽¹⁾⁽²⁾			Total (\$)
	Options (\$)	Performance rights ⁽³⁾ (\$)	Restricted shares (\$)	
Solomon Trujillo	–	309,305	–	309,305
Bruce Akhurst	290,185	354,513	5,338	650,036
Kate McKenzie	–	30,871	–	30,871
David Moffatt	367,050	391,010	21,401	779,461
Deena Shiff	82,016	131,691	684	214,391
John Stanhope	113,080	220,808	1,916	335,804
David Thodey	241,368	319,421	–	560,789
Gregory Winn	–	–	–	–
Zygmunt Switkowski ⁽⁴⁾	1,743	2,737	36	4,516

(1) The value of each instrument is calculated by applying option valuation methodologies as described in note 31 to the financial statements and is then amortised over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed as other equity in the remuneration table. The valuations used in current year disclosures are based on the same underlying assumptions as the previous year. Please refer to note 31 for details on our employee share plans.

(2) Where a vesting scale is used, the table reflects the maximum achievable allocation.

(3) The September 2002 plan failed to satisfy the performance measure in the first quarter of the performance period. In accordance with the terms of the plan half the maximum potential allocation of performance rights lapsed on 6 December 2005. Although an accounting value is recorded above, the executives received no value from this plan.

(4) This represents the pro-rated amortised value of LTI instruments up to date of separation in accordance with accounting standards. These equity instruments are still subject to meeting performance hurdles and Dr Switkowski may or may not derive any value from these instruments.

Outstanding equity-based instruments

The accounting value and actual number of the CEO and senior executives' performance rights, restricted shares and options that were granted, exercised and lapsed in fiscal 2006 are set out in Figure 20 below and Figure 21 on page 55. As the values shown in Figure 20 represent the accounting value, the executive may not have actually received these amounts. The value of lapsed instruments in Figure 20 is based on the accounting value. This value is included to address our reporting obligations only. Where these instruments lapse, there is no benefit at all to the executive, and therefore no transfer of any equity or equity-related instrument. All instruments that have lapsed were subjected to the external performance measure of Total Shareholder Return (TSR).

The actual number of LTI instruments that were granted, exercised and lapsed in fiscal 2006 is set out in Figure 21 on page 55. Of the performance rights allocated in fiscal 2006, 100% of the allocations were granted and none were forfeited, lapsed or vested during fiscal 2006. However, all unvested equity instruments may lapse in future years if the performance measures are not satisfied.

Figure 20: Value of equity instruments granted, exercised and lapsed in fiscal 2006

	Granted during period ⁽¹⁾		Exercised (\$)	Lapsed (\$)	Aggregate of rights granted, exercised and lapsed (\$)
	(\$)	% of Total Remuneration ⁽²⁾			
Solomon Trujillo	2,482,011	28.5%	–	–	2,482,011
Bruce Akhurst	436,714	11.6%	–	–	436,714
Kate McKenzie	164,838	34.1%	–	–	164,838
David Moffatt	444,159	13.5%	–	–	444,159
Deena Shiff	297,846	15.2%	–	–	297,846
John Stanhope	384,589	17.1%	–	–	384,589
David Thodey	403,578	14.3%	–	–	403,578
Gregory Winn	–	–	–	–	–
Zygmunt Switkowski	–	–	–	–	–

(1) This represents the accounting value at grant date of performance rights granted in fiscal 2006.

(2) Total Remuneration is the sum of short term benefits, post employment benefits and share based payments detailed in Figure 19 on page 53.

Figure 21: Number of equity-based instruments – granted, vested, exercised and lapsed

	Instrument	Balance at 1 July 2005	Granted during period ⁽¹⁾	Exercised during period	Lapsed during period ⁽²⁾	Balance at 30 June 2006 ⁽³⁾	Vested but not exercised during period ⁽⁴⁾
Solomon Trujillo	Performance Rights	–	836,821	–	–	836,821	–
Bruce Akhurst	Performance Rights	473,600	147,240	59,000	66,900	494,940	–
	Restricted shares	39,000	–	–	39,000	–	–
	Options	805,000	–	–	188,000	617,000	–
	Deferred shares	135,300	–	66,900	–	68,400	–
	Incentive shares	–	120,967	–	–	120,967	–
Kate McKenzie	Performance Rights	36,000	55,576	–	–	91,576	–
	Restricted shares	–	–	–	–	–	–
	Options	–	–	–	–	–	–
	Deferred shares	–	–	–	–	–	–
	Incentive shares	–	18,905	–	–	18,905	–
David Moffatt	Performance Rights	521,600	149,750	71,000	76,300	524,050	–
	Restricted shares	40,000	–	–	40,000	–	–
	Options	890,000	–	–	150,000	740,000	–
	Deferred shares	152,400	–	76,300	–	76,100	–
	Incentive shares	–	57,365	–	–	57,365	–
Deena Shiff	Performance Rights	151,600	100,420	17,000	19,800	215,220	–
	Restricted shares	5,000	–	–	5,000	–	–
	Options	202,200	–	–	24,200	178,000	–
	Deferred shares	42,300	–	19,800	–	22,500	–
	Incentive shares	–	68,188	–	–	68,188	–
John Stanhope	Performance Rights	290,000	129,666	23,000	23,800	372,866	–
	Restricted shares	14,000	–	–	14,000	–	–
	Options	310,000	–	–	69,000	241,000	–
	Deferred shares	73,200	–	23,800	–	49,400	–
	Incentive shares	–	55,482	–	–	55,482	–
David Thodey	Performance Rights	427,200	136,068	51,000	59,000	453,268	–
	Restricted shares	–	–	–	–	–	–
	Options	534,000	–	–	–	534,000	–
	Deferred shares	121,600	–	–	–	121,600	59,000
	Incentive shares	–	47,639	–	–	47,639	–
Greg Winn	–	–	–	–	–	–	–
Zygmunt Switkowski	Performance Rights	1,643,600	–	–	–	1,643,600	–
	Restricted shares	96,000	–	–	–	96,000	–
	Options	1,810,000	–	–	–	1,810,000	–
	Deferred shares	500,700	–	–	–	500,700	–

(1) Instruments granted during fiscal 2006 relate to the annual LTI plan for fiscal 2006 and the STI plan for fiscal 2005.

(2) No equity instruments granted during fiscal 2006 lapsed in fiscal 2006.

(3) This represents the number of vested and unvested equity instruments which have not been exercised or lapsed as at 30 June 2006, or in the case of Dr Switkowski, the date of cessation with Telstra.

(4) The number of instruments that vested during fiscal 2006 relate to the September 2002 Deferred Shares and had not been exercised at 30 June 2006.

Figure 22: Summary of contract arrangements for CEO and senior executives

Name	Term of agreement	Fixed remuneration at 30 June 2006	Additional conditions	Notice Period ⁽¹⁾	Termination payment ⁽²⁾
Solomon Trujillo	Ongoing	\$3,000,000	nil	30 days	12 months ⁽³⁾
Bruce Akhurst	Ongoing	\$1,173,000	nil	6 months	12 months
Kate McKenzie	Ongoing	\$530,000	nil	6 months	12 months
David Moffatt	Ongoing	\$1,193,000	nil	6 months	12 months
Deena Shiff	Ongoing	\$800,000	nil	6 months	12 months
John Stanhope	Ongoing	\$1,033,000	nil	6 months	12 months
David Thodey	Ongoing	\$1,084,000	nil	6 months	12 months
Gregory Winn	11 August 2005 to 10 August 2007 ⁽⁴⁾	\$1,450,000	\$500,000 sign on bonus paid 12 Sept 2005. Contract completion payments ⁽⁵⁾	3 months	6 months + pro-rata at target STI + pro-rata contract completion payment (where pro-rata performance met)
Zygmunt Switkowski	1 September 2003 to 31 December 2007	\$2,092,000	nil	6 months	12 months

- (1) Upon notice being given Telstra can require the executive to work through the notice period or terminate employment immediately by providing payment in lieu of notice.
- (2) Payment is calculated on fixed remuneration as at date of termination. There will be no payment if termination is a result of serious misconduct or redundancy (in which case Telstra's redundancy policy applies).
- (3) A 24 month termination payment applied where Mr Trujillo's employment was terminated in the first 12 months. As this period has now expired the standard 12 month termination payment will apply.
- (4) Where both parties mutually agree, the contract can be extended by 12 months until 8 August 2008. Where extended, and termination occurs between 2-3 years of employment, Mr. Winn is paid the lesser of: remaining fixed remuneration to completion or 6 months fixed remuneration and pro-rata 3rd year contract completion payment (where pro-rata performance is met).
- (5) Contract completion payments are in lieu of LTI participation (due to fixed term contract). Payment of up to \$1.8m subject to performance against pre-determined measures. Where contract is extended an additional contract completion payment of \$500,000 is available.

CONTRACT ARRANGEMENTS

The key terms and conditions for the CEO and senior executive service contracts are set out in Figure 22 above.

A contract typically outlines the components of remuneration paid to the executive but does not prescribe how remuneration levels are to be modified from year to year.

Generally, contracts can be terminated by either the company or senior executive providing 6 months notice. Upon notice being given Telstra can require the executive to remain employed by Telstra for the notice period or terminate employment immediately by providing payment in lieu of notice.

RELOCATION COSTS ASSOCIATED WITH OVERSEAS SENIOR EXECUTIVES

During the year the Board implemented significant changes to the executive management team. In addition to Solomon Trujillo joining Telstra as the Chief Executive Officer, a number of key executives were recruited to drive the major transformational changes required under the new business strategy.

Where executives have been recruited from overseas, appropriate reward to secure their employment was negotiated. This can include overseas relocation benefits in accordance with our relocation policies or the executives' contract of employment.

The range of benefits and services provided to these senior executives under those arrangements may include:

- travel to Australia for themselves and their immediate family on commencement;
- a defined number of round-trip air tickets to their place of origin for themselves and their family;
- furniture storage and removal costs;
- rental assistance while in Australia for an initial period of time;
- a relocation allowance to cover incidental and miscellaneous expenses;
- health insurance;
- tax advice; and
- tax equalisation of foreign earned income.

NON-EXECUTIVE DIRECTORS

REMUNERATION POLICY AND STRATEGY

In order to maintain their independence and impartiality, non-executive directors are remunerated with fees which are not linked to company performance. The total fee pool is approved by shareholders.

Our non-executive directors are remunerated in accordance with our constitution, which provides for the following:

- an aggregate limit of fees is set and varied only by approval of a resolution of shareholders at the annual general meeting; and
- the Board determines how those fees are allocated among the directors within the fee pool.

In recognition of the increased time and responsibility of non-executive directors, on 25 October 2005, shareholders approved an increase to the directors' fee pool to \$2,000,000 per annum (previously \$1,320,000 per annum). As a result of this increase:

- fees paid to Board members, including additional fees paid for service on Board committees were increased; and
- existing retirement benefits to non-executive directors, employed before 1 July 2002, were integrated into the overall fee pool.

In determining the required level for the fee pool and individual director fee levels, the Committee makes recommendations to the Board, and in the case of the fee pool, the Board makes a recommendation to shareholders, taking into account:

- the company's existing remuneration policies;
- independent professional advice;
- the fee pools of other comparable companies (based on company size using market capitalisation);
- fees paid to individual directors by comparable companies;
- the general time commitment and responsibilities involved;
- the risks associated with discharging the duties attaching to the role of director; and
- the level of fees necessary to attract and retain directors of a suitable calibre.

In order to maintain their independence and impartiality, the remuneration of the non-executive directors is not linked to the performance of the company, except through their participation in the Directshare plan, which is explained below.

REMUNERATION STRUCTURE

Non-executive directors receive a total remuneration package based on their role on the Board and their committee memberships. Non-executive directors must sacrifice at least 20% of their fees into Telstra shares to align their interests with those of our shareholders.

All Board and committee fees, including superannuation, paid to non-executive directors in fiscal 2006 remain within the new fee pool. Board and Committee fees were increased in fiscal 2006 to take into account the changes to retirement benefits made following the 2005 Annual General Meeting and prevailing market rates for directors' fees. Following these increases the Board and Committee fees payable to directors in fiscal 2006 are set out below.

Board fees

	Chairman	Director
Board	\$450,000	\$130,000

Committee fees

Board members, excluding the Chairman, are paid the following additional fees for service on Board committees:

Committee	Chairman	Member
Audit Committee	\$70,000	\$35,000
Remuneration Committee	\$14,000	\$7,000
Nomination Committee	–	\$7,000
Technology Committee	\$7,000	\$7,000

The Board considered these fees appropriate given the additional time requirements of committee members, the complex matters before the committees and, in the case of the Audit Committee, an increased number of committee meetings and governance requirements.

Components of the total remuneration package (TRP)

The Board has determined that a non-executive director's total remuneration will consist of three components: cash, shares (through the Directshare plan) and superannuation. Each year directors are asked to specify the allocation of their total remuneration between these three components, subject to the following conditions:

- at least 30% must be taken as cash;
- at least 20% must be taken as Directshares; and
- the minimum superannuation guarantee contribution must be made, where applicable.

The Board will continue to periodically review its approach to the non-executive directors' remuneration structure to ensure it compares with general industry practice and best practice principles of corporate governance.

Equity compensation – Directshare

Directshare aims to encourage a longer-term perspective and to align the directors' interests with those of our shareholders.

Through our Directshare plan, non-executive directors are required to sacrifice a minimum of 20% of their TRP towards the acquisition of restricted Telstra shares. The shares are purchased on-market and allocated to the participating non-executive director at market price. The shares are held in trust and are unable to be dealt with for 5 years unless the participating director ceases to be a director of Telstra.

If a non-executive director chooses to increase their participation in the Directshare plan, they take a greater percentage of TRP in Telstra shares, and their cash component is reduced. As the allocation of Directshares is simply a percentage of the non-executive director's TRP, it is not subject to the satisfaction of a performance measure.

Directors are restricted from entering into arrangements which effectively operate to limit the economic risk of their shareholdings allocated under the Directshare plan during the period the shares are held in trust.

Superannuation

Mandatory superannuation contributions are included as part of each director's total remuneration. Directors may choose to increase the proportion of their remuneration taken as superannuation, subject to legislative requirements.

RETIREMENT BENEFITS

In accordance with good corporate governance practice, we do not provide retirement benefits for directors appointed after 30 June 2002. However, non-executive directors appointed before that date were eligible to receive retirement benefits on retiring as a director.

At the annual general meeting on 25 October 2005, we explained that as a result of the increase in the directors' fee pool, retirement benefits would cease to accrue. This means that directors who were appointed before 30 June 2002 will receive cash equal to the benefits accrued to 25 October 2005. These benefits will be indexed by reference to changes in Telstra's share price between that date and the date the director's retirement takes effect.

This approach:

- aligns directors' interests with those of stakeholders and with the long term success of the company;
- subjects the value of the retirement benefit to movement in Telstra's share price and dividend payments; and
- maintains the principle that this payment be made when the director retires, rather than provide an early cash payout of the retirement benefits at the time these arrangements were approved.

Figure 23 below shows the increase in retirement benefits payable to non-executive directors appointed before 30 June 2002 and the value of the payment to the director if he or she had retired on 30 June 2006.

OTHER BENEFITS

Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the Board or committees, or when otherwise engaged on company business. We also provide directors with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we may also make products and services available to directors without charge to allow them to familiarise themselves with our products and services and with recent technological developments.

To the extent any of these items are considered a personal benefit to a director, the value of the benefit is included in the "non-monetary benefits" column in Figure 24 on page 59.

Figure 23: Non-executive directors – increases in retirement benefits

Name	Balance as at 2005 (a) (\$)	Increase in value to 25 October 05 (b) (\$)	Total value to 25 October 05 (a) + (b) (\$)	Indexed increase in value to 30 June 06 (c) - (a) (\$)	Payment to director if he/she had retired on 30 June 2006 ⁽¹⁾ (c) (\$)
Donald G McGauchie	340,673	76,169	416,842	60,094	400,767
John E Fletcher	126,138	13,829	139,967	8,437	134,575 ⁽²⁾
Belinda J Hutchinson	103,794	16,584	120,378	11,943	115,737
Catherine B Livingstone	143,074	18,059	161,133	11,849	154,923
Charles Macek	117,949	17,315	135,264	12,099	130,048
John W Stocker	342,176	27,273	369,449	13,026	355,202

(1) The value is calculated by multiplying the number of notional shares plus additional notional shares allocated for re-invested dividends by \$3.68 being the volume weighted average price of Telstra shares traded on 30 June 2006.

(2) John Fletcher resigned as a director on 30 June 2006 and was paid this amount in accordance with the retirement benefit policy. This amount is also included as a termination payment in Figure 24 on page 59.

DETAILS OF NON-EXECUTIVE DIRECTORS' REMUNERATION

Figure 24 below provides the details of all remuneration paid to our non-executive directors in fiscal 2006.

Figure 24: Non-executive directors – details of remuneration

Name		Short term employee benefits			Post-employment benefits		Termination benefits	Equity settled share-based payments	Total (\$)
		Salary and Fees ⁽¹⁾ (\$)	Non-monetary benefits ⁽²⁾ (\$)	Other (\$)	Super-annuation (\$)	Retirement benefits (\$)	Termination benefits ⁽³⁾ (\$)	Direct share (\$)	
Donald G McGauchie Chairman	Ongoing	312,236	3,078	–	12,158	60,094	–	81,099	468,665
John T Ralph ⁽⁴⁾ Deputy Chairman	Retired COB 11 Aug 2005	17,474	380	–	– ⁽⁵⁾	–	462,548	–	480,402
Anthony J Clark ⁽⁴⁾ Director	Retired COB 11 Aug 2005	9,015	458	–	970	–	278,846	–	289,289
John E Fletcher ⁽⁶⁾ Director	Resigned COB 30 June 2006	94,209	2,775	–	8,056	–	134,575	26,422	266,037
Belinda J Hutchinson Director	Ongoing	100,611	2,288	–	18,551	11,943	–	29,740	163,133
Catherine Livingstone Director	Ongoing	113,063	2,288	–	10,998	11,849	–	31,015	169,213
Charles Macek Director	Ongoing	123,032	2,748	–	11,227	12,099	–	33,565	182,671
John W Stocker Director	Ongoing	110,817	2,288	–	39,006	13,026	–	37,390	202,527
Peter Willcox ⁽⁷⁾ Director	Commenced 17 May 2006	11,872	–	–	1,069	–	–	3,235	16,176
John Zeglis ⁽⁷⁾ Director	Commenced 17 May 2006	12,941	–	–	–	–	–	3,235	16,176
Total		905,270	16,303	–	102,035	109,011	875,969	245,701	2,254,289

(1) Includes fees for membership on Board committees.

(2) Includes the value of the personal use of products and services.

(3) These payments relate to eligible retirement benefits payable on cessation as Directors of Telstra.

(4) Mr Ralph and Mr Clark retired as Directors of Telstra effective 11 August 2005.

(5) Under current superannuation legislation Mr Ralph did not receive superannuation benefits as he had passed his 70th birthday.

(6) Mr Fletcher resigned as a Director of Telstra on 30 June 2006.

(7) Mr Willcox and Mr Zeglis were appointed as Directors on 17 May 2006. Mr Zeglis is based in the United States.

There are no individual contracts for service with our non-executive directors other than as described above in relation to post-employment benefits.

Concise Financial Report

Income Statement for the year ended 30 June 2006

	Note	Telstra Group Year ended 30 June	
		2006 \$m	2005 \$m
Income			
Revenue (excluding finance income)	2,3	22,772	22,181
Other income		328	261
		23,100	22,442
Expenses			
Labour	5	4,364	3,858
Goods and services purchased	5	4,730	4,211
Other expenses	5	4,427	3,815
		13,521	11,884
Share of net (gain)/loss from jointly controlled and associated entities		(5)	94
		13,516	11,978
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		9,584	10,464
Depreciation and amortisation	5	4,087	3,529
Earnings before interest and income tax expense (EBIT)	3	5,497	6,935
Finance income		66	83
Finance costs		1,002	963
Net finance costs		936	880
Profit before income tax expense		4,561	6,055
Income tax expense		1,380	1,746
Profit for the year		3,181	4,309
Earnings per share (cents per share)			
		cents	cents
Basic		25.7	34.7
Diluted		25.7	34.6
Total dividends declared (cents per share)	4	34.0	40.0

The above income statement should be read in conjunction with the accompanying notes. The financial statements and specific disclosures have been derived from the full financial report contained in the "Annual Report 2006". This concise financial report is extracted from the full financial report and as a result, cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the full financial report contained in the "Annual Report 2006" which is available, free of charge, upon request to Telstra.

Balance Sheet as at 30 June 2006

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

The above balance sheet should be read in conjunction with the accompanying notes. The financial statements and specific disclosures have been derived from the full financial report contained in the "Annual Report 2006". This concise financial report is extracted from the full financial report and as a result, cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the full financial report contained in the "Annual Report 2006" which is available, free of charge, upon request to Telstra.

Statement of Recognised Income and Expense for the year ended 30 June 2006

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

The above statement of recognised income and expense should be read in conjunction with the accompanying notes. The financial statements and specific disclosures have been derived from the full financial report contained in the "Annual Report 2006". This concise financial report is extracted from the full financial report and as a result, cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the full financial report contained in the "Annual Report 2006" which is available, free of charge, upon request to Telstra.

Statement of Cash Flows

for the year ended 30 June 2006

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

The above statement of cash flows should be read in conjunction with the accompanying notes. The financial statements and specific disclosures have been derived from the full financial report contained in the "Annual Report 2006". This concise financial report is extracted from the full financial report and as a result, cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the full financial report contained in the "Annual Report 2006" which is available, free of charge, upon request to Telstra.

Notes to the concise financial statements

1. ACCOUNTING POLICIES

Basis of preparation

This concise financial report has been prepared in accordance with the Corporations Act 2001 and AASB 1039: "Concise Financial Reports" and is derived from the full financial report contained in the "Annual Report 2006". All amounts are presented in Australian dollars.

The principal accounting policies we used in preparing the concise financial report of Telstra Corporation Limited and its controlled entities (referred to as the Telstra Group) are included in the full financial report contained in the "Annual Report 2006".

Adoption of International Financial Reporting Standards

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

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

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

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

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

Reconciliations and descriptions of the impact of transition to A-IFRS on the Telstra Group income statement, balance sheet and statement of cash flows are provided in note 36 of the full financial report contained in the "Annual Report 2006".

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

2. REVENUE

Our total revenue (excluding finance income) includes:

	Telstra Group	
	Year ended 30 June 2006	2005
	\$m	\$m
Sales revenue	22,750	22,161
Other revenue	22	20
Total revenue (excluding finance income)	22,772	22,181

3. SEGMENT INFORMATION

We report our segment information on the basis of business segments as our risks and returns are affected predominantly by differences in the products and services we provide through those segments.

Business segments

During fiscal 2006, we created the following new business segments:

- Telstra Business;
- Telstra Operations; and
- Strategic Marketing.

The Telstra Business group has been drawn from the Telstra Consumer Marketing and Channels group (formerly known as Telstra Consumer and Marketing), Telstra Country Wide and the Telstra Enterprise and Government (formerly known as Telstra Business and Government) business units.

The Strategic Marketing group was drawn from various business units across Telstra comprising mainly Telstra Consumer Marketing and Channels.

The Telstra Operations group combined Telstra Services (formerly known as Infrastructure Services), Telstra Technology, Innovation and Products, and Operations Support, which moved from being reported within our corporate areas.

Those business segments not impacted by the above restructures are substantially consistent with their structure in the prior year. We have restated all our comparative information to reflect our current reporting position as if all our new business segments and segment accounting policies existed in fiscal 2005.

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

Telstra Consumer Marketing and Channels (TC&C) is responsible for:

- the provision of the full range of telecommunication products, services and communication solutions to consumers; and
- leading the mass market channels including inbound and outbound call centres, Telstra Shops and Telstra Dealers.

Telstra Business (TB) is responsible for:

- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to small to medium enterprises.

Telstra Enterprise and Government (TE&G) is responsible for:

- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to corporate and government customers; and
- the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

Telstra Wholesale (TW) is responsible for:

- the provision of a wide range of telecommunication products and services delivered over our networks and associated support systems to:
 - non-Telstra branded carriers, carriage service providers, internet service providers, system integrators and application service providers; and
 - infrastructure owners and managers who acquire infrastructure services.

Sensis is responsible for:

- the management and growth of the information, advertising and directories business, including printed publications, directory assistance, and online products and services.

Telstra International (TInt.) consists of the following offshore business operations:

- CSL New World is responsible for our operations in Hong Kong that mainly generate revenues from the mobiles market;
- International Head Office Group is responsible for our Asia-Pacific investments; and
- TelstraClear is our New Zealand subsidiary that provides integrated telecommunications services to the New Zealand market.

Telstra Operations (TO) is responsible for:

- co-ordination and execution for our company's multi-year business improvement and transformation program;
- leading the identification, analysis, validation, development and implementation of product, technology and information technology strategies for both the network infrastructure and customer solutions of our Company;
- overall planning, design, specification of standards, commissioning and decommissioning of our communication networks;
- construction of infrastructure for our Company's fixed, mobile, Internet Protocol (IP) and data networks;
- operation and maintenance, including activation and restoration of these networks;
- supply and delivery of information technology solutions to support our products, services and customer support function;
- the development and lifecycle management of products and services over the networks, as well as application platforms and the online environment; and
- operational support functions for our Company, including procurement, billing, credit management and property management.

Telstra Country Wide (TCW) is responsible for:

- the management and control of providing telecommunication products and services to consumer, small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory.

Notes to the concise financial statements (continued)

3. SEGMENT INFORMATION (CONTINUED)

Telstra BigPond is responsible for:

- the management and control of our retail internet products, BigPond brand and marketing, services and content, contact services, customer relations and associated functions, for broadband and dial-up delivery.

Telstra Media is responsible for:

- the management of our investment interest in the FOXTEL partnership; and
- the development and management of the hybrid fibre coaxial (HFC) cable network.

Strategic Marketing is responsible for:

- the co-ordination and delivery of marketing activities across our Company and market segments.

Corporate areas include:

- Legal Services - provides legal services across the Company;
- Public Policy and Communications - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It also has responsibility for regulatory positioning and negotiation;
- Finance and Administration - encompasses the functions of business and finance services, treasury, risk management and assurance, investor relations and the office of the company secretary. It also includes the financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group; and
- Human Resources - encompasses talent management, organisational development, human resource operations, health, safety and environment, as well as workplace relations and remuneration.

In our segment financial results, the "Other" segment consists of various business units that do not qualify as reportable segments in their own right. These includes:

- Telstra Country Wide;
- Telstra BigPond;
- Telstra Media;
- Strategic Marketing; and
- our corporate areas.

Segment financial results

Items are initially allocated to each business unit for internal management reporting on a basis that is considered suitable for senior management to manage the business.

For segment reporting purposes, we have reallocated certain items between the respective business segments pursuant to the definitions of segment revenues, segment expenses, segment assets and segment liabilities contained in the applicable accounting standard, where a reasonable allocation basis exists.

Where no reasonable allocation basis exists, we have not reallocated individual items to alternative segments. For segment reporting purposes, these items are reported within the same business segment as for internal management reporting.

Change in segment accounting policies

The following accounting policy change occurred during fiscal 2006:

Interconnection revenue

In previous financial years, our segment accounting policy was to recognise our revenue relating to interconnection entirely in our TW business segment. In fiscal 2006, some parts of the revenue earned from interconnection were allocated to the TC&C, TB and TE&G business segments to match the revenue recognised with the associated expense. As a result, revenue in TW decreased by \$633 million and revenue increased in TC&C by \$500 million, TB by \$52 million and TE&G by \$81 million in fiscal 2006 to reflect this change in policy.

3. SEGMENT INFORMATION (CONTINUED)

Telstra Group	TC&C \$m	TB \$m	TE&G \$m	TW \$m	Sensis \$m	TInt. \$m	TO \$m	Other ^(a) \$m	Elimi- nations \$m	Total \$m
Year ended 30 June 2006										
Revenue from external customers	8,897	3,053	4,607	2,607	1,826	1,450	226	106	-	22,772
Add inter-segment revenue	-	-	57	292	10	31	83	7	(480)	-
Total segment revenue	8,897	3,053	4,664	2,899	1,836	1,481	309	113	(480)	22,772
Segment result under A-IFRS	5,721	2,412	2,702	2,693	865	86	(4,175)	(4,903)	29	5,430
Share of equity accounted net (losses)/profits	-	-	-	-	(1)	12	-	(6)	-	5
Less net gain on sale of investment	-	-	4	-	-	58	-	-	-	62
Earnings before interest and income tax expense (EBIT)	5,721	2,412	2,706	2,693	864	156	(4,175)	(4,909)	29	5,497
Earnings has been calculated after charging/(crediting) the following non cash expenses:										
Impairment losses	140	10	8	-	13	11	143	26	-	351
Reversal of impairment losses	-	-	-	(20)	-	-	(2)	-	-	(22)
Depreciation and amortisation	-	-	63	-	91	298	48	3,587	-	4,087
Other significant non cash expenses	26	4	20	5	1	3	144	7	-	210
Non current segment assets acquired (excluding acquisition of investments)	11	-	89	23	96	224	4,032	5	-	4,480
As at 30 June 2006										
Segment assets	1,437	370	1,767	453	1,886	3,817	3,308	23,316	(179)	36,175
Segment assets include:										
Investment in jointly controlled entities	-	-	1	-	-	1	-	-	-	2
Investment in associated entities	-	-	18	-	3	-	-	-	-	21
Segment liabilities	1,260	165	618	241	673	615	2,534	17,414	(177)	23,343

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

Segment assets for the "Other" segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group. Segment liabilities includes income tax liabilities and borrowings, which have been reallocated from the reportable business segment in accordance with the applicable accounting standard.

Notes to the concise financial statements (continued)

3. SEGMENT INFORMATION (CONTINUED)

Telstra Group	TC&C \$m	TB \$m	TE&G \$m	TW \$m	Sensis \$m	TInt. \$m	TO \$m	Other ^(a) \$m	Elimi- nations \$m	Total \$m
Year ended 30 June 2005										
Revenue from external customers	8,931	3,099	4,570	2,267	1,708	1,360	161	85	–	22,181
Add inter-segment revenue	–	–	52	284	11	38	77	2	(464)	–
Total segment revenue	8,931	3,099	4,622	2,551	1,719	1,398	238	87	(464)	22,181
Segment result under A-IFRS	6,179	2,488	2,807	2,283	812	94	(3,371)	(4,345)	3	6,950
Share of equity accounted net (losses)/profits	3	–	5	–	–	(96)	–	(6)	–	(94)
Less net gain on sale of investment	66	–	–	–	–	13	–	–	–	79
Earnings before interest and income tax expense (EBIT)	6,248	2,488	2,812	2,283	812	11	(3,371)	(4,351)	3	6,935
Earnings has been calculated after charging/(crediting) the following non cash expenses:										
Impairment losses	115	18	12	–	17	7	20	30	(29)	190
Depreciation and amortisation	–	–	46	–	64	266	1	3,152	–	3,529
Other significant non cash expenses	25	3	22	6	4	3	139	24	–	226
Non current segment assets acquired (excluding acquisition of investments)	16	–	45	503	74	246	3,052	110	–	4,046
As at 30 June 2005										
Segment assets	1,448	343	1,635	356	1,836	3,641	2,750	23,702	(500)	35,211
Segment assets include:										
Investment in jointly controlled entities	–	–	3	–	–	33	–	–	–	36
Investment in associated entities	–	–	8	–	4	–	–	–	–	12
Segment liabilities	1,021	119	639	148	665	547	2,024	16,887	(497)	21,553

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

Segment assets for the "Other" segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group. Segment liabilities includes income tax liabilities and borrowings, which have been reallocated from the reportable business segment in accordance with the applicable accounting standard.

4. DIVIDENDS

	Telstra Group Year ended 30 June	
	2006 \$m	2005 \$m
Dividends paid		
Previous year final dividend paid (i)	1,739	1,639
Previous year special dividend paid with the final dividend (i)	746	–
Interim dividend paid (ii)	1,739	1,739
Special dividend paid with the interim dividend (ii)	746	746
Total dividends paid	4,970	4,124
Dividends per ordinary share paid		
	¢	¢
Previous year final dividend paid	14.0	13.0
Previous year special dividend paid with the final dividend	6.0	–
Interim dividend paid	14.0	14.0
Special dividend paid with the interim dividend	6.0	6.0
Total dividends paid	40.0	33.0

- (i) Our previous year final dividend (including special dividend) was paid on 31 October 2005 for fiscal 2005 and 29 October 2004 for the fiscal 2004 final dividend.
- (ii) Our interim dividend (including special dividend) was paid on 24 March 2006 for fiscal 2006, and 29 April 2005 for the fiscal 2005 interim dividend.

Our dividends are fully franked at a tax rate of 30%.

Dividends per ordinary share declared

Our dividends declared per share in respect of each fiscal year as disclosed on the face of our income statement is detailed below:

	Telstra Group Year ended 30 June	
	2006 ¢	2005 ¢
Dividends declared per ordinary share		
Interim dividend paid	14.0	14.0
Special dividend paid with the interim dividend	6.0	6.0
Final dividend declared (iii)	14.0	14.0
Special dividend to be paid with the final dividend	–	6.0
Total	34.0	40.0

- (iii) As our final dividend for fiscal 2006 was not declared, determined or publicly recommended by the Board as at 30 June 2006, no provision for dividend was raised prior to, or as at, that date in the balance sheet. Our final dividend has been reported as an event subsequent to balance date and the provision for dividend has been raised at the declaration date. Refer to note 6 for further details.

Notes to the concise financial statements (continued)

5. INCOME STATEMENT ITEMS REQUIRING SPECIFIC DISCLOSURE

The separate disclosure of the following material items is relevant in explaining our financial performance.

	Telstra Group	
	Year ended 30 June	2005
	2006	2005
	\$m	\$m
Our profit for the year has been calculated after charging specific expense items from our continuing operations as detailed below:		
Redundancy and restructuring related costs (i)		
Labour		
– redundancy expense	356	–
– restructuring expense	50	–
	406	–
Goods and services purchased		
– restructuring expense	54	–
Other expenses		
– restructuring expense	105	–
– impairment in value of inventories	18	–
– impairment in value of trade and other receivables	14	–
– impairment in value of intangibles	61	–
– impairment in value of property, plant and equipment	46	–
	244	–
Depreciation and amortisation		
– accelerated amortisation of intangibles	160	–
– accelerated depreciation of property, plant and equipment	262	–
	422	–
Total expense items	1,126	–
Income tax benefit attributable to those items requiring specific disclosure	(338)	–
Net expense items after income tax benefit	788	–

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

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

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

For the year ended 30 June 2006, we have recorded a number of restructuring related expenses associated with the implementation of the strategic review initiatives. The redundancy and restructuring costs include the following:

- redundancy costs associated with the reduction in our workforce, including those redundancies that have been provided for;

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

A total provision of \$427 million has been raised for redundancy and restructuring as at 30 June 2006. This includes \$395 million recorded in current and non current provisions, \$18 million recorded as a reduction in inventory and \$14 million recorded as an allowance for other receivables. During fiscal 2005, there were no items requiring disclosure.

6. EVENTS AFTER BALANCE DATE

We are not aware of any matter or circumstance that has occurred since 30 June 2006 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

Dividend declaration

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

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

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

FOXTEL loan facility

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

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

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

Independent Audit Report to the Members of Telstra Corporation Limited

SCOPE

The concise financial report and directors' responsibility

The concise financial report comprises the income statement, balance sheet, statement of cash flows, statement of recognised income and expense, and the accompanying notes to the financial statements for the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both Telstra Corporation Limited (the Telstra Entity) and the entities it controlled during the year (the Telstra Group).

The directors of the Telstra Entity are responsible for preparing a concise financial report that complies with Accounting Standard AASB 1039 "Concise Financial Reports", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report.

Audit approach

I have conducted an independent audit on the concise financial report in order to express an opinion on it to the members of the Telstra Entity. My audit was conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects the concise financial report presents fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

I formed my audit opinion on the basis of these procedures, which included:

- examining, on a test basis, the information to provide evidence supporting that the amounts and disclosures in the concise financial report are consistent with the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report.

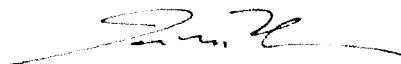
I have also performed an independent audit of the full financial report of the Telstra Entity and the Telstra Group for the year ended 30 June 2006. My audit report on the full financial report was signed on 10 August 2006, and was not subject to any qualification. For a better understanding of my approach to the audit of the full financial report, this report should be read in conjunction with my audit report on the full financial report.

INDEPENDENCE

I am independent of the Telstra Group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. I have given to the directors of the Telstra Entity a written Auditor's Independence Declaration, signed on 10 August 2006, a copy of which is included in the directors' report. In addition to the audit of the full and concise financial reports, additional services were undertaken as disclosed in the notes to the financial statements of the full financial report. The provision of these services has not impaired my independence.

AUDIT OPINION

In my opinion, the concise financial report of the Telstra Group complies with Accounting Standard AASB 1039 "Concise Financial Reports".



Ian McPhee
Auditor – General

Date: 10 August 2006
Canberra, Australia

Five year financial summary

	2006 ⁽¹⁾ \$m	2005 ⁽²⁾ \$m	2004 ⁽³⁾ \$m	2003 ⁽³⁾ \$m	2002 ⁽³⁾ \$m
Sales revenue	22,750	22,161	20,737	20,495	20,196
EBITDA ⁽⁴⁾	9,584	10,464	10,175	9,170	9,483
EBIT ⁽⁴⁾	5,497	6,935	6,560	5,723	6,216
Profit before income tax expense	4,561	6,055	5,848	4,928	5,446
Profit for the year after minority interests	3,181	4,309	4,118	3,429	3,661
Dividends declared for the fiscal year ⁽⁵⁾	4,231	4,978	3,284	3,474	2,830
Dividends declared per share (cents per share) ⁽⁵⁾	34.0	40.0	26.0	27.0	22.0
Total assets	36,175	35,211	34,993	35,599	38,219
Gross debt	13,746	13,319	11,854	12,272	13,726
Net debt	13,057	11,772	11,167	10,972	12,268
Equity	12,832	13,658	15,361	15,422	14,106
Capital expenditure and investments	4,303	4,129	3,683	3,332	3,662
Free cash flow	4,550	5,194	4,163	4,565	3,840
Financial ratios	%	%	%	%	%
Return on average assets	15.8	20.6	19.4	16.3	17.5
Return on average equity	24.2	30.6	26.8	23.2	26.8
EBIT net finance costs cover (times) ⁽⁴⁾	5.9	7.9	8.3	6.4	7.0
EBITDA net finance costs cover (times) ⁽⁴⁾	10.2	11.9	12.9	10.2	10.7
Gross debt to capitalisation ⁽⁶⁾	51.7	49.4	43.6	44.3	49.3
Net debt to capitalisation ⁽⁷⁾	50.4	45.9	42.1	41.6	46.5
Net debt to EBITDA	1.4	1.1	1.1	1.2	1.3

(1) Prepared under the Australian equivalent of International Financial Reporting Standards (A-IFRS).

(2) Restated to comply with A-IFRS.

(3) Prepared under the previous A-GAAP. Refer to note 36 to the financial report contained in the Annual Report for details on the differences between A-IFRS and A-GAAP.

(4) Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Similarly, earnings before interest and income tax expense (EBIT) reflects our profit for the year prior to including the effects of net finance costs and income taxes. We believe EBITDA and EBIT are useful to investors and analysts and other members of the investment community largely view them as key and widely recognised measures of operating performance.

(5) Dividends declared in 2006 include a 6 cent special dividend paid with the interim dividend. Dividends declared in 2005 include two special dividends amounting to 12 cents and dividends declared in 2003 include a 3 cent special dividend.

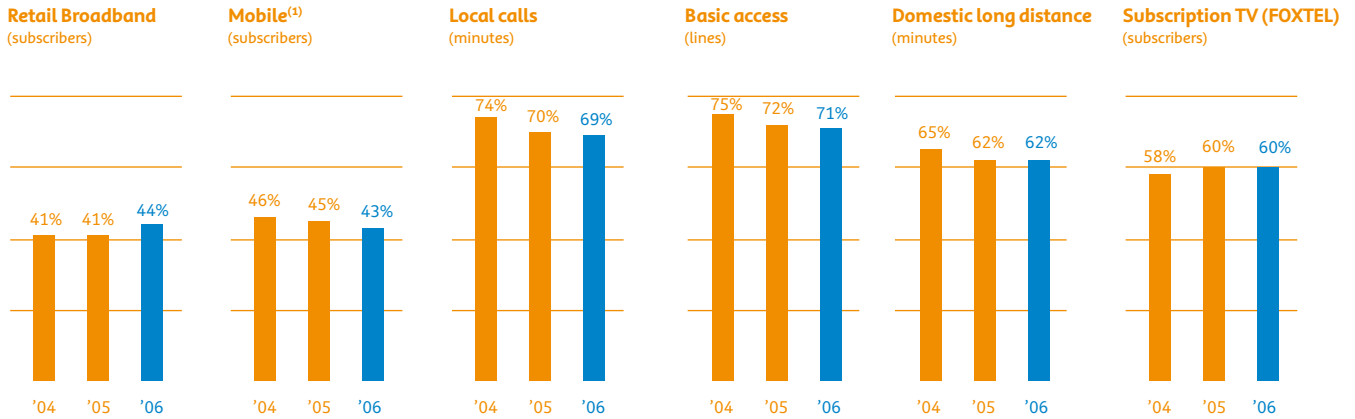
(6) Based on gross debt (total current and non current borrowings) as a percentage of gross debt plus shareholders' equity.

(7) Based on net debt (gross debt less liquid interest bearing assets) as a percentage of net debt plus shareholders' equity.

Net debt and gross debt balance 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 be \$13,208 million and Net Debt would have been \$11,660 million.

Telstra facts

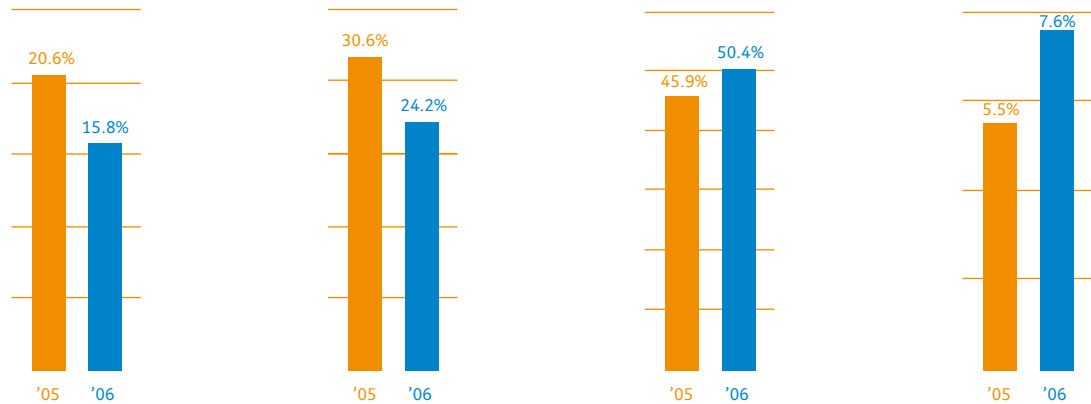
TELSTRA MARKET SHARE AT 30 JUNE



(1) Market share based on Telstra, Optus, Vodafone and Hutchinson data to 30 June 2006.

Source: Telstra estimates

Return on average assets Return on average equity Net debt to capitalisation Dividend yield (ordinary)



Return on average assets lower is fiscal year due to lower profit

Return on average equity decline due to lower profit and increase in dividend payments in fiscal year

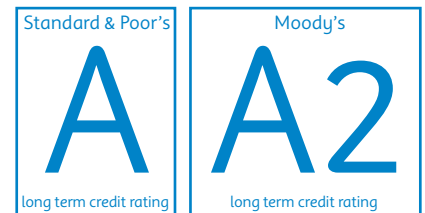
Net debt to capitalisation

Dividend yield

TELSTRA'S FACTS – AS AT 30 JUNE 2006

Telstra maintained a strong balance sheet and generated strong cash flows for the year.

- more than \$36 billion of assets
- \$22 billion of sales revenue
- \$4 billion of free cash flow
- 49 thousand workforce
- \$4 billion of capital expenditure
- 1.5 million shareholders



During the year, Telstra's credit rating was adjusted by Standard and Poor's and Moody's.

Glossary of terms

Term	Explanation	Term	Explanation
3GSM 850	Third Generation mobile technology operating on 850Mhz spectrum: Telstra's own new national network, currently under construction, also uses 3G-HSDPA on 850Mhz, a technology enhancement which provides greater breadth, much faster speeds when using HSDPA handsets and lower capital costs as 850 requires fewer base stations than 2100 to achieve the same coverage.	GSM	Global System for Mobile Communications – one of Telstra's two digital networks. GSM covers 96% of the Australian population.
3G 2100	Third Generation mobile technology operating on 2100Mhz spectrum, offered by Telstra in partnership with Hutchison Telecommunications Australia (HTA).	HiBIS	Higher Bandwidth Incentive Scheme
3G GSM	Third Generation Global System for mobile communications – is the evolution of the current GSM 2G and 2.5G technology to support voice and high speed data and multimedia services	IP	Internet Protocol – is a standard set of rules for the carriage of digital information such as voice, video, data and images, across a global network.
ACCC	Australian Competition and Consumer Commission – the body responsible for regulating the telecommunications industry	IP Core	The core element of a network which carries and logically splits voice, data and video using IP technology
ACMA	Australian Communications and Media Authority – responsible for the regulation of broadcasting, radio communications, telecommunications and online content.	ISAM	Internet Service Access Multiplexer – ADSL technology manufactured by Alcatel.
ADSL	Asymmetric Digital Subscriber Line – is a broadband technology that provides access to the internet at fast speeds. ADSL – sometimes shortened to simply 'DSL' - uses a data transmission technology that allows high speed data to be carried over everyday copper network phone lines. These data rates can enable the delivery of voice, data and video services.	ISDN	Integrated Services Digital Network - is an international communications standard for sending voice, video, and data over digital telephone lines or normal telephone wires. An ISDN service provides the equivalent of 2 lines which may be used for voice, data or a combination of both. ISDN supports data transfer rates of 2 x 64 Kbps (64,000 bits per second) over a copper cable for a Basic Rate service i.e. 128kbps total. While ISDN is about twice as fast as dial-up service, its use has been largely surpassed by ADSL.
A-IFRS	Australian equivalent of International Financial Reporting Standards	ISP	Internet Service Provider - A company that connects individuals or organisations to the internet. Can range in size from an individual operating dial-up access, to providers operating substantial network backbones and fast cable modem access
AGAAP	Generally accepted accounting principles in Australia	MMS	Multimedia Messaging Service – allows mobile phone users to send photos, pictures and sounds to other phones and to email recipients.
ASIC	Australian Securities and Investment Commission	OTC	Overseas Telecommunications Corporation – merged with Telecom Australia to form AOTC, now Telstra
ASX	Australian Stock Exchange Limited	PSTN	Public Switched Telephone Network - Generic term for public telephone networks. Often referred to as “fixed-line” the PSTN is the standard home telephone service, delivered over underground copper wires.
CDMA	Code Division Multiple Access – a mobile standard which provides voice, data, fax and short messaging services	SME	Small to medium size enterprise
Churn	The number of subscribers disconnecting from a service	SMS	Short Messaging Service - The text based message service on mobile phones. Also known as “text messages”.
COO	Chief Operations Officer	ULL	Unconditioned Local Loop – The Local Loop is the copper wire that connects the Telstra exchange in your area to your house. Telstra is required to provide access to this wire to other operators – this connection is known as “Unconditioned or Unbundled Local Loop”. Other telecommunications providers can provide customers with their own services - like broadband and the plain old telephone service - by installing their own equipment in Telstra exchanges and connecting to the “loop”.
DSLAM	Digital Subscriber Line Access Multiplexor - technology located at exchanges or in roadside cabinets that take the copper lines from a customer premises and convert signals on/off them into a high speed pipeline to the internet.	VoIP	Voice over IP – voice calls over the internet
EBIT	Earnings Before Interest and Tax		
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation		
EVDO	Evolution Data Optimised – additional service for mobiles supporting high speed packet data transmission		
FTTN	Fibre to the node – infrastructure that delivers fibre close to the customer premises. FTTN can deliver broadband data and potentially television services to customer premises.		

Major shareholders

Major shareholders

The following table shows the number of unlisted and listed shares on issue at 1 September 2006.

Title of class	Identity of person or group	Amount owned	% of class
Shares	The Commonwealth	6,446,207,123 ⁽¹⁾	51.8
Shares	Listed shareholders	5,996,867,234	48.2
		12,443,074,357	100.0

(1) All shares held by the Commonwealth are unlisted, except for 211,629 listed shares.

Distribution of shares

The following table summarises the distribution of our public listed shares as at 1 September 2006:

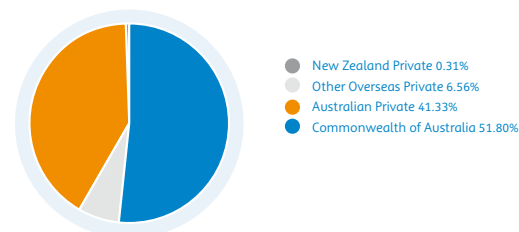
Size of holding	Number of shareholders		Shares ⁽¹⁾	
	Number	%	Number	%
1 – 1,000	901,435	59.13	553,474,596	9.23
1,001 – 5,000	513,079	33.65	1,174,996,812	19.60
5,001 – 10,000	68,991	4.53	500,420,837	8.34
10,001 – 100,000	39,807	2.61	856,073,764	14.27
100,001 and over	1,219	0.08	2,912,112,854	48.56
Total	1,524,531	100.00	5,997,078,863	100.00

(1) Including the 211,629 listed shares held by the Commonwealth.

TOTAL RETAIL SHAREHOLDERS (HOLDING LESS THAN 100,000 SHARES) AS AT 1 SEPTEMBER 2006

Shareholders by State	Number of Shareholders	Number of Shares
Australian Capital Territory	33,390	60,716,129
New South Wales	470,480	978,239,730
Northern Territory	7,325	11,454,367
Queensland	228,237	475,911,759
South Australia	115,385	219,762,294
Tasmania	22,642	41,073,283
Victoria	486,462	966,324,310
Western Australia	150,807	288,095,451
Total Australia	1,514,728	3,041,577,323

Shareholder breakdown as at 1 September 2006



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Shareholder information

Q. How can I access and change information about my shareholding?

- A. You can contact the Telstra Share Registry on 1300 88 66 77 or you can visit our website at www.telstra.com.au/abouttelstra/investor/services.cfm. From this site you can access your holding information, you can make changes to your holding record, or you can download forms to complete and return to the Telstra Share Registry to ensure that your details are up to date.

To access your shareholder information via this secure website you will need to log in using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), as well as your surname or company name and postcode.

Q. How can I get my shareholder information electronically?

- A. Australian shareholders can elect to receive all or some of their communications electronically and assist the environment at the same time. Telstra is proud to be associated with eTree, an initiative of leading Australian companies and Landcare Australia. Telstra currently donates \$2 to Landcare Australia for every shareholder who chooses to receive all their communications electronically (including their dividend statements) or \$1 for every shareholder who chooses to just receive their shareholder reports and meeting notices electronically. Since the scheme was launched in 2004, more than 170,000 Telstra shareholders have signed up resulting in a donation of more than \$285,000.

Given the benefits for the company and the environment, we encourage you to become electronic shareholders (although it remains entirely your choice). If you want to receive some or all of your shareholder communications electronically, just log in to your holding record on www.telstra.com.au/abouttelstra/investor/services.cfm as outlined above and select 'Yes – I would like to be an e-shareholder'. You will need to type in your email address and make your election to 'email Notice of Meeting, Proxy and Annual Report'. If you want to get your direct credit dividend advices electronically as well, then select the 'email' choice.

Q. What is this new website 'www.nowweareretalking.com.au' about?

- A. nowweareretalking.com.au is an interactive website for shareholders, customers and anyone with an interest in the challenges facing the telecommunications industry in Australia. The site features views and opinions from industry experts and some popular blogs written by Telstra staff talking about their day-to-day work. Shareholders are encouraged to join and contribute to the nowweareretalking.com.au discussion forums.

FINANCIAL CALENDAR

	2007
Half year results announcement	15 Feb
Ex-dividend share trading commences	26 Feb
Record date for interim dividend	2 Mar
Interim dividend paid	30 Mar
Annual results announcement	9 Aug
Ex-dividend share trading commences	20 Aug
Record date for final dividend	24 Aug
Final dividend paid	21 Sep
Annual General Meeting	7 Nov

Note – Timing of events may be subject to change. Any changes will be notified to the Australian Stock Exchange (ASX).

Contact details

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Telstra Corporation Limited

Incorporated in the Australian Capital Territory
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Websites

Telstra's investor relations home page:
www.telstra.com.au/abouttelstra/investor

Telstra's interactive advocacy website:
www.nowweareretalking.com.au

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Visit Telstra Investor Relations at www.telstra.com.au/abouttelstra/investor or
visit our interactive advocacy website at www.nowwearetalking.com.au

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