Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2006

Page Number

Financial Statements

Notes to the Financial Statements

Income Statement

for the year ended 30 June 2006

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2006	2006	2005	2006	2005
	Note	$m	US$m	$m	$m	$m
Income						
Revenue (excluding finance income)	6	**22,772**	**16,904**	22,181	**20,485**	19,831
Other income	6	**328**	**243**	261	**163**	133
		23,100	**17,147**	22,442	**20,648**	19,964
Expenses						
Labour	7	**4,364**	**3,239**	3,858	**3,483**	3,082
Goods and services purchased	7	**4,730**	**3,511**	4,211	**3,305**	2,958
Other expenses	7	**4,427**	**3,286**	3,815	**4,562**	3,478
		13,521	**10,036**	11,884	**11,350**	9,518
Share of net (gain)/loss from jointly controlled and associated entities	30	**(5)**	**(4)**	94	**-**	-
		13,516	**10,032**	11,978	**11,350**	9,518
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**9,584**	**7,115**	10,464	**9,298**	10,446
Depreciation and amortisation	7	**4,087**	**3,034**	3,529	**3,657**	3,206
Earnings before interest and income tax expense (EBIT)		**5,497**	**4,081**	6,935	**5,641**	7,240
Finance income	6	**66**	**49**	83	**63**	101
Finance costs	7	**1,002**	**744**	963	**985**	943
Net finance costs		**936**	**695**	880	**922**	842
Profit before income tax expense		**4,561**	**3,386**	6,055	**4,719**	6,398
Income tax expense	9	**1,380**	**1,024**	1,746	**1,482**	1,882
Profit for the year		**3,181**	**2,362**	4,309	**3,237**	4,516
Earnings per share (cents per share)		**cents**	**US cents**	cents		
Basic	3	**25.7**	**19.0**	34.7		
Diluted	3	**25.7**	**19.0**	34.6		
Total dividends declared (cents per share)	4	**34.0**	**25.0**	40.0		

The notes following the financial statements form part of the financial report.

Balance Sheet

as at 30 June 2006

		Telstra Group			Telstra Entity	
		As at 30 June			As at 30 June	
		2006	**2006**	2005	**2006**	2005
	Note	**$m**	**US$m**	$m	**$m**	$m
Current assets						
Cash and cash equivalents	10	**689**	**511**	1,548	**474**	1,368
Trade and other receivables	11	**3,701**	**2,747**	3,549	**3,344**	3,538
Inventories	12	**224**	**166**	232	**175**	194
Derivative financial assets	16	**21**	**16**	4	**21**	4
Prepayments		**244**	**181**	249	**172**	173
Total current assets		**4,879**	**3,621**	5,582	**4,186**	5,277
Non current assets						
Trade and other receivables	11	**87**	**65**	97	**127**	115
Inventories	12	**20**	**15**	15	**20**	15
Investments - accounted for using the equity method	13	**23**	**17**	48	**18**	41
Investments - other	13	**-**	**-**	-	**5,953**	6,136
Property, plant and equipment	14	**23,622**	**17,535**	22,891	**21,765**	21,223
Intangibles	15	**6,123**	**4,545**	6,329	**2,465**	2,751
Deferred tax assets	9	**1**	**1**	2	**-**	-
Derivative financial assets	16	**391**	**290**	-	**391**	-
Defined benefit assets	28	**1,029**	**764**	247	**1,004**	242
Total non current assets		**31,296**	**23,232**	29,629	**31,743**	30,523
Total assets		**36,175**	**26,853**	35,211	**35,929**	35,800
Current liabilities						
Trade and other payables	17	**3,570**	**2,650**	2,807	**3,065**	1,956
Borrowings	18	**1,969**	**1,462**	1,507	**3,374**	3,892
Current tax liabilities		**428**	**318**	534	**400**	519
Provisions	19	**737**	**547**	421	**679**	356
Derivative financial liabilities	20	**12**	**9**	11	**12**	11
Revenue received in advance		**1,170**	**868**	1,132	**919**	912
Total current liabilities		**7,886**	**5,854**	6,412	**8,449**	7,646
Non current liabilities						
Trade and other payables	17	**197**	**146**	250	**65**	61
Borrowings	18	**11,409**	**8,469**	10,941	**11,376**	10,907
Deferred tax liabilities	9	**1,704**	**1,265**	1,804	**1,832**	1,961
Provisions	19	**974**	**723**	894	**924**	837
Derivative financial liabilities	20	**768**	**570**	864	**768**	864
Revenue received in advance		**405**	**301**	388	**400**	381
Total non current liabilities		**15,457**	**11,474**	15,141	**15,365**	15,011
Total liabilities		**23,343**	**17,328**	21,553	**23,814**	22,657
Net assets		**12,832**	**9,525**	13,658	**12,115**	13,143
Equity						
Share capital	21	**5,569**	**4,134**	5,536	**5,569**	5,536
Reserves	22	**(160)**	**(119)**	(153)	**210**	194
Retained profits	23	**7,177**	**5,327**	8,273	**6,336**	7,413
Equity available to Telstra Entity shareholders		**12,586**	**9,342**	13,656	**12,115**	13,143
Minority interests	23	**246**	**183**	2	**-**	-
Total equity		**12,832**	**9,525**	13,658	**12,115**	13,143

The notes following the financial statements form part of the financial report.

Statement of Recognised Income and Expense

for the year ended 30 June 2006

	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2006	**2006**	2005	**2006**	2005
	$m	**US$m**	$m	**$m**	$m
Foreign currency translation reserve					
Equity accounting our interest in jointly controlled and associated entities	**1**	**1**	(2)	**-**	-
Translation of financial statements of non-Australian controlled entities	**(36)**	**(27)**	(193)	**-**	-
Cash flow hedging reserve					
Net hedging gains recognised directly in equity	**327**	**243**	-	**327**	-
Net hedging gains removed from equity and included in profit for the year	**(420)**	**(312)**	-	**(421)**	-
General reserve					
Equity accounting our interest in jointly controlled and associated entities	**-**	**-**	5	**-**	-
Retained profits					
Actuarial gain/(loss) on our defined benefit plans	**958**	**711**	(90)	**945**	(85)
	830	**616**	(280)	**851**	(85)
Income tax on equity items	**(256)**	**(190)**	24	**(256)**	24
Net income/(expense) recognised directly in equity	**574**	**426**	(256)	**595**	(61)
Profit for the year	**3,181**	**2,362**	4,309	**3,237**	4,516
Total recognised income for the year	**3,755**	**2,788**	4,053	**3,832**	4,455
Effects of changes in accounting policy attributable to Telstra Entity	**74**	**55**	1,223	**77**	737

The notes following the financial statements form part of the financial report.

Statement of Cash Flows

for the year ended 30 June 2006

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2006	2006	2005	2006	2005
	Note	$m	US$m	$m	$m	$m
Cash flows from operating activities						
Receipts from customers (inclusive of goods and services tax (GST))		**25,229**	**18,779**	24,526	**21,928**	21,343
Payments to suppliers and to employees (inclusive of GST)		**(14,785)**	**(11,026)**	(13,848)	**(11,754)**	(11,079)
Net cash generated by operations		**10,444**	**7,753**	10,678	**10,174**	10,264
Income taxes paid		**(1,882)**	**(1,397)**	(1,718)	**(1,863)**	(1,712)
Net cash provided by operating activities	24	**8,562**	**6,356**	8,960	**8,311**	8,552
Cash flows from investing activities						
Payments for:						
- property, plant and equipment		**(3,636)**	**(2,699)**	(2,995)	**(3,483)**	(2,715)
- intangibles		**(619)**	**(459)**	(544)	**(502)**	(460)
Capital expenditure (before investments)		**(4,255)**	**(3,158)**	(3,539)	**(3,985)**	(3,175)
- shares in controlled entities (net of cash acquired)	24	**(43)**	**(32)**	(573)	**(27)**	(28)
- payments for other investments		**(5)**	**(4)**	(17)	**-**	(6)
Total capital expenditure		**(4,303)**	**(3,194)**	(4,129)	**(4,012)**	(3,209)
Proceeds from:						
- sale of property, plant and equipment		**50**	**37**	68	**72**	79
- sale of shares in controlled entities		**4**	**3**	-	**-**	-
- sale of other investments		**89**	**66**	176	**89**	164
Net proceeds from CSL New World Mobility merger	24	**42**	**31**	-	**-**	-
Issue of additional shares by controlled entities		**6**	**4**	-	**-**	-
Redemption of PCCW converting note		**-**	**-**	76	**-**	76
Proceeds from share buy-back by jointly controlled and associated entities		**34**	**25**	-	**34**	-
Loan to jointly controlled and associated entities		**-**	**-**	(37)	**-**	-
Interest received		**66**	**49**	78	**63**	79
Dividends received		**-**	**-**	2	**-**	1
Net cash used in investing activities		**(4,012)**	**(2,979)**	(3,766)	**(3,754)**	(2,810)
Operating cash flows less investing cash flows		**4,550**	**3,377**	5,194	**4,557**	5,742
Cash flows from financing activities						
Proceeds from borrowings		**8,641**	**6,413**	6,433	**8,680**	6,611
Proceeds from Telstra bonds		**-**	**-**	983	**-**	983
Repayment of borrowings		**(7,624)**	**(5,659)**	(5,735)	**(7,703)**	(6,478)
Repayment of Telstra bonds		**(517)**	**(384)**	(272)	**(517)**	(272)
Repayment of finance lease principal amounts		**(7)**	**(5)**	(16)	**(6)**	(11)
Staff repayments of share loans		**24**	**18**	19	**24**	19
Purchase of shares for employee share plans	21	**(6)**	**(4)**	-	**(6)**	-
Finance costs paid		**(940)**	**(698)**	(879)	**(953)**	(892)
Dividends paid	4	**(4,970)**	**(3,689)**	(4,124)	**(4,970)**	(4,124)
Share buy-back	21	**-**	**-**	(756)	**-**	(756)
Net cash used in financing activities		**(5,399)**	**(4,008)**	(4,347)	**(5,451)**	(4,920)
Net increase/(decrease) in cash		**(849)**	**(631)**	847	**(894)**	822
Foreign currency translation on opening balances		**4**	**3**	(3)	**-**	-
Cash at the beginning of the year		**1,534**	**1,139**	690	**1,368**	546
Cash at the end of the year	24	**689**	**511**	1,534	**474**	1,368

The notes following the financial statements form part of the financial report.

Notes to the Financial Statements

1. Basis of preparation

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

Our financial or fiscal year ends on 30 June. Unless we state differently the following applies;

- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2006 means fiscal 2006 and similarly for other fiscal years.

The financial report of the Telstra Group and the Telstra Entity for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 10 August 2006.

The principal accounting policies used in preparing the financial report of the Telstra Group and the Telstra Entity are listed in note 2 to our financial statements.

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report prepared in accordance with the requirements of the Australian Corporations Act 2001 and Accounting Standards applicable in Australia.

Both the functional and presentation currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non Australian controlled entities is not Australian dollars. As a result, the results of these entities are translated to Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of investments, which are equity accounted and some financial assets and liabilities (including derivative instruments) which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we are required to make judgements and estimates that impact:

- income and expenses for the year;
- the reported amounts of assets and liabilities; and
- the disclosure of off balance sheet arrangements, including contingent assets and contingent liabilities.

We continually evaluate our judgements and estimates. We base our judgements and estimates on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies.

Actual results may differ from our estimates in the event that the scenarios on which our judgements are based prove to be different.

1.2 Statement of compliance

This financial report complies with Accounting Standards applicable in Australia, which include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the Telstra Group and Telstra Entity financial statements and notes comply with International Financial Reporting Standards (IFRS). The financial statements of Telstra Entity are considered separate financial statements.

This is our first full year financial report prepared in accordance with A-IFRS. AASB 1: "First time adoption of Australian equivalents to International Financial Reporting Standards" (AASB 1) has been applied in preparing this financial report. Our financial reports up to 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from A-IFRS.

When preparing this financial report we have amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with A-IFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. We have taken the exemption available under AASB 1 to only apply AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132) and AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139), from 1 July 2005. In addition, we have elected to early adopt AASB 7: "Financial Instruments: Disclosures", which supersedes the disclosure requirements of AASB 132.

Reconciliations and descriptions of the impact of the transition to A-IFRS on the Telstra Group and Telstra Entity's income statement, balance sheet and statement of cash flow are provided in note 36.

1.3 Clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net (gain)/loss from jointly controlled and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Notes to the Financial Statements (continued)

1. Basis of preparation (continued)

1.3 Clarification of terminology used in our income statement (continued)

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. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company's operating profit.

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt service and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

When a specific item from continuing operations is of such a size, nature or incidence that its disclosure is relevant in explaining our operating performance for the reporting period, its nature and amount is disclosed separately in note 7(b).

1.4 Adoption of accounting standards before their application date

Certain new accounting standards and Urgent Issues Group (UIG) interpretations have been issued with an application date after the year ended 30 June 2006. As a result, these accounting standards and UIG interpretations are not mandatory for adoption in our financial report for the year ended 30 June 2006.

Under subsection 334(5) of the Corporations Act 2001, we elected to early adopt the following accounting standards before the application date:

- AASB 119: "Employee Benefits (issued December 2004)"(AASB 119); and
- AASB 7: "Financial Instruments: Disclosures" (AASB 7).

Due to the early adoption of the revised AASB 119, we also elected to adopt the related omnibus accounting standard, AASB 2005-3: "Amendments to Australian Accounting Standards". Our comparatives for the year ended 30 June 2005 were fully restated for these accounting standards in accordance with AASB 1.

Due to the early adoption of AASB 7, we also elected to adopt the related omnibus accounting standard, AASB 2005-10: "Amendments to Australian Accounting Standards". We have taken the exemption available under AASB 1 to only apply these standards from 1 July 2005.

1.5 United States generally accepted accounting principles (USGAAP)

This financial report combines the disclosure requirements for both A-IFRS and United States Generally Accepted Accounting Principles (USGAAP). Note 37 contains a reconciliation of the major differences between our financial report prepared under A-IFRS and USGAAP.

This financial report has been prepared using our presentation currency, Australian dollars (A$). For the convenience of readers outside Australia we have converted our financial statements and USGAAP disclosures from A$ to US$ for fiscal 2006.

These conversions appear under columns headed "US$m" and represent rounded millions of US dollars. The conversion has been made using the noon buying rate in New York City for cable transfers in non-US currencies. This rate is certified for custom purposes by the Federal Reserve Bank of New York. The rate on 30 June 2006 was A$1.00 = US$0.7423.

These conversions are indicative only and do not mean that the A$ amounts could be converted to US$ at the rate indicated.

1.6 Recently issued accounting standards to be applied in Australia in future reporting periods

The accounting standards and UIG interpretation that have not been early adopted for the year ended 30 June 2006, but will be applicable to the Telstra Group and Telstra Entity in future reporting periods are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

Notes to the Financial Statements (continued)

1. Basis of preparation (continued)

1.6 Recently issued accounting standards to be applied in Australia in future reporting periods (continued)

Lease arrangements

UIG 4: "Determining Whether an Arrangement Contains a Lease" (UIG 4) is applicable to annual reporting periods beginning on or after 1 January 2006. We will apply this interpretation in our financial report for the half-year ended 31 December 2006. A related omnibus standard AASB 2005-5: "Amendments to Australian Accounting Standards" will also be adopted for the half-year ended 31 December 2006.

UIG 4 requires entities to assess whether the arrangements they enter into contain leases. An arrangement contains a lease if fulfilment of the arrangement is dependent on the use of specific assets and it conveys a right to use those assets to the customer. The lease component of the arrangement is then separated and accounted for as either a finance or operating lease depending on the nature of the arrangement. Under our current accounting policy we do not separately account for leases that are embedded within our service agreements.

UIG 4 will align our accounting under A-IFRS to our policy adopted under USGAAP (refer to note 37(p)). However, our USGAAP policy is only applied to arrangements that were entered into or modified after 1 July 2003. UIG 4 is applicable to all arrangements in existence as of the transition date.

Financial guarantees

AASB 2005-9: "Amendments to Australian Accounting Standards" is applicable to annual reporting periods beginning on or after 1 January 2006. We will apply this interpretation in our financial report for the half-year ended 31 December 2006.

These amendments require that liabilities arising from the issue of financial guarantee contracts be recognised on the balance sheet. Management has not yet determined the effect the adoption of these amendments will have on our balance sheet, income statement or statement of cashflows.

1.7 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars ($m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998, issued under section 341(1) of the Corporations Act 2001.

Notes to the Financial Statements (continued)

2. Summary of accounting policies

2.1 Change in accounting policies

The following accounting policy changes occurred during fiscal 2006:

The transition to Australian equivalents to International Financial Reporting Standards (A-IFRS) resulted in changes to a number of our accounting policies. The accounting policies set out below have been applied in preparing the financial report for the year ended 30 June 2006, the comparative information presented in these financial statements and in the preparation of the opening A-IFRS balance sheet as at 1 July 2004, except for the accounting policies in respect of financial instruments.

Reconciliations and descriptions of the impact of the transition to A-IFRS on the Telstra Group and Telstra Entity's income statement, balance sheet and statement of cash flow are provided in note 36.

There were no accounting policy changes during fiscal 2005.

Accounting policies

2.2 Principles of consolidation

The consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the year and the consolidated results and cash flows for the year. The effect of all intergroup transactions and balances are eliminated in full from our consolidated financial statements.

Where we do not control an entity for the entire year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

Our consolidated retained profits include retained profits/ accumulated losses of controlled entities from the time they became a controlled entity until control ceases. Minority interests in the results and equity of controlled entities are shown separately in our consolidated income statement and consolidated balance sheet.

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies.

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity so as to obtain benefits from its activities.

We account for the acquisition of our controlled entities using the purchase method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the cost of acquisition over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

2.3 Foreign currency translation

(a) Transactions and balances

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into the relevant functional currency at market exchange rates at balance date. Any currency translation gains and losses that arise are included in our profit or loss for the year. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in equity over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

(b) Translation of financial reports of foreign operations that have a functional currency that is not Australian dollars.

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Telstra Corporation Limited.

Our operations include subsidiaries, associates, and jointly controlled entities, the activities and operations of which are in an economic environment where the functional currency is not Australian dollars. The financial statements of these entities are translated to Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at balance date;
- equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/ accumulated losses) are translated at the exchange rates current at the dates of those movements;
- income statements are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in the foreign currency translation reserve.

2. Summary of accounting policies (continued)

2.3 Foreign currency translation (continued)

Exchange differences relating to foreign currency monetary items forming part of the net investment in our entities operating in an economic environment where the functional currency is not Australian dollars, together with related tax effects, are eliminated against the foreign currency translation reserve in our consolidated financial statements.

Where we hedge our investment in entities which are in an economic environment where the functional currency is not Australian dollars, the gains or losses on the hedging instrument are recognised in the foreign currency translation reserve until we dispose of the operation, at which time the cumulative gains and losses are transferred to the income statement.

Upon disposal or partial disposal of a foreign operation, the balance of the foreign currency translation reserve relating to the entity, or the part disposed of, is transferred to the income statement and becomes part of the gain or loss on sale.

2.4 Cash and cash equivalents

Cash includes cash at bank and on hand, bank deposits, bills of exchange and commercial paper with an original maturity date not greater than three months.

Bank deposits are recorded at amounts to be received.

Bills of exchange and commercial paper are classified as ‘available-for-sale’ financial assets and are therefore held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

The statement of cash flow discloses cash net of outstanding bank overdrafts where applicable.

2.5 Trade and other receivables

Telstra has elected to apply the option available under AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" (AASB 1) of adopting AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132) and AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139) from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Trade debtors and other receivables are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost.

An allowance for doubtful debts is raised based on a review of outstanding amounts at balance date. Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are written off as an expense directly in the income statement.

2.6 Inventories

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

We allocate cost to the majority of inventory items on hand at balance date using the weighted average cost basis. For the remaining quantities on hand, actual cost is used where the item was purchased for use in a particular asset or project, and the ‘first in first out’ basis is used for materials purchased for production of directories.

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

2.7 Construction contracts

(a) Valuation

We record construction contracts in progress at cost (including any profits recognised) less progress billings and any provision for foreseeable losses.

Cost includes:

- both variable and fixed costs directly related to specific contracts;
- amounts which can be allocated to contract activity in general and which can be allocated to specific contracts on a reasonable basis; and
- costs expected to be incurred under penalty clauses, warranty provisions and other variances.

Where a significant loss is estimated to be made on completion, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.7 Construction contracts (continued)

(b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion, refer to note 2.18(d) for further details.

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

2.8 Assets classified as held for sale

Non current assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction, rather than through continuing use. We only classify an asset as held for sale if it is available for immediate sale in its present condition subject to only usual and customary terms, and its sale is highly probable.

We record held for sale assets at the lower of the carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write down of the assets to fair value less costs to sell. We do not depreciate or amortise these assets while they are classified as held for sale.

2.9 Investments

(a) Controlled entities

Investments in controlled entities are recorded at cost less impairment of the investment value.

Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.26.

(b) Jointly controlled and associated entities

(i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Under the equity method of accounting, we adjust the initial recorded amount of the investment for our share of:

- profits or losses for the year after tax since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses;
- dividends or distributions received; and
- deferred profit brought to account.

Our share of all of these items, apart from dividends or distributions received and reserves, is recorded in the income statement.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years share of losses and reserve reductions.

Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of investment falls below zero, we reduce the value of the assets in proportion with our cumulative losses.

(ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20% and 50%, and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.9 Investments (continued)

(c) Jointly controlled assets

A jointly controlled asset involves the joint control of one or more assets acquired and dedicated for the purpose of a joint venture. The assets are used to obtain benefits for the venturers. Where the asset is significant we record our share of the asset. We record expenses based on our percentage ownership interest of the jointly controlled asset.

(d) Listed securities and investments in other corporations

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Our investments in listed securities and in other corporations are classified as 'available-for-sale' financial assets and as such are measured at fair value at each reporting date.

Net fair values of our investments are calculated on the following bases:

- for listed securities traded in an organised financial market, we use the current quoted market bid price at balance date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent arms length transactions involving the same instruments or other instruments that are substantially the same.

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in equity until we dispose of the investment, or we determine it to be impaired, at which time we transfer all cumulative gains and losses to the income statement.

2.10 Impairment

(a) Non-financial assets

Our tangible and intangible assets (excluding inventories, assets arising from construction contracts, deferred tax assets, defined benefit assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment, or where an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal. We recognise any decrement in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted, discount rate. When determining an appropriate discount rate, we use the weighted average cost of capital (WACC) as an initial point of reference, adjusted for specific risks associated with each different category of assets assessed.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Our cash generating units (CGUs) are determined according to the lowest level of aggregation for which an active market exists and the assets involved create largely independent cash inflows.

We apply management judgement to establish our CGUs. We have determined that assets which form part of our ubiquitous telecommunications network work together to generate net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, we have determined that the ubiquitous telecommunications network is a single CGU. We have referred to this CGU as the Telstra Entity CGU in our financial report.

The Telstra Entity CGU excludes the hybrid fibre coaxial (HFC) cable network, which we consider not to be integrated with the rest of our telecommunications network.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.10 Impairment (continued)

(b) Financial assets

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ending 30 June 2005 and 30 June 2006.

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets are impaired.

For financial assets held at fair value, we consider the financial asset to be impaired when there has been an extended period in which the fair value of the financial asset has been below the acquisition cost and the decline in fair value is not expected to be recovered. At this time, all revaluation losses in relation to the impaired financial asset that have been accumulated within equity are recognised in the income statement.

For financial assets held at cost or amortised cost, we consider the financial asset to be impaired when there is a difference between the carrying value and the present value of estimated discounted future cash flows. Any impairment losses are recognised immediately in the income statement.

Impairment losses recognised in the income statement are not reversed in relation to investment securities.

2.11 Property, plant and equipment

(a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.11(b). The cost of our constructed property, plant and equipment includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- where we have an obligation for removal of the asset or restoration of the site, an estimate of the cost of restoration or removal if that cost can be reliably estimated.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The unwinding of this discount is recorded within finance costs.

(b) Depreciation

Items of property, plant and equipment, including buildings and leasehold property, but excluding freehold land, are depreciated on a straight line basis to the income statement over their estimated service lives. We start depreciating assets when they are installed and ready for use.

The service lives of our significant items of property, plant and equipment are as follows:

	Telstra Group	
	As at 30 June	
	2006	**2005**
Property, plant and equipment	**Service life (years)**	**Service life (years)**
Buildings - building shell	**55**	55
- general purpose	**8 - 40**	8 - 40
- fitout	**10 - 20**	10 - 20
Communication assets		
Buildings - building shell	**55**	55
- network	**8 - 40**	8 - 40
- fitout	**10 - 20**	10 - 20
Customer premises equipment	**3 - 8**	3 - 8
Transmission equipment	**2 - 25**	3 - 25
Switching equipment	**4 - 12**	1 - 10
Mobile equipment	**2 - 10**	3 - 10
Cables	**5 - 25**	8 - 25
Ducts and pipes - main cables	**40**	40
- distribution	**30**	30
Other communications plant	**1 - 30**	3 - 16
Other assets		
Leasehold plant and equipment	**3 - 15**	3 - 15
Other plant, equipment and motor vehicles	**3 - 15**	3 - 15

The service lives and residual value of our assets are reviewed each year. We apply management judgment in determining the service lives of our assets. This assessment includes a comparison with international trends for telecommunication companies, and in relation to communication assets, includes a determination of when the asset may be superseded technologically or made obsolete.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.11 Property, plant and equipment (continued)

We account for our assets individually where it is practical and feasible and in line with commercial practice. Where it is not practical and feasible, we account for assets in groups. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained. This is the case for certain communication assets as we assess our technologies to be replaced by a certain date.

As part of our review, service lives of our assets are reassessed. Any reassessment in a particular year will affect the depreciation expense (either increasing or decreasing) through to the end of the reassessed useful life for both that current year and future years. The net effect of the reassessment for fiscal 2006 was an increase in our depreciation expense of $66 million (2005: $60 million decrease) for both the Telstra Group and Telstra Entity. This reassessment includes the adjustment arising from our transformation resulting from the strategic review undertaken, refer to note 7(b) for further information.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network. We charge the cost of repairs and maintenance, including the cost of replacing minor items, which are not substantial improvements, to operating expenses.

2.12 Leased plant and equipment

We account for leases in accordance with AASB 117: "Leases". We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains all such risks and benefits.

Where we acquire non current assets via a finance lease, the lower of the fair value of the asset and the present value of future minimum lease payments is capitalised as equipment under finance lease at the beginning of the lease term. Capitalised lease assets are depreciated on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Operating lease payments are charged to the income statement on a straight line basis over the term of the lease.

Where we lease properties, costs of improvements to these properties are capitalised as leasehold improvements and amortised over the shorter of the useful life of the improvements or the term of the lease.

2.13 Intangible assets

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

(a) Goodwill

On the acquisition of investments in controlled entities, jointly controlled and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is recognised as goodwill in the Telstra Group balance sheet. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.10 on an annual basis and when an indication of impairment exists.

(b) Internally generated intangible assets

Research costs are recorded as an expense as incurred. Development costs are capitalised if the project is technically and commercially feasible and we have sufficient resources to complete the development.

Software assets

We record direct costs associated with the development of business software for internal use as software assets if the development costs satisfy the criteria for capitalisation described above.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed; and
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project.

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.13 Intangible assets (continued)

(c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. On initial acquisition, we apply management judgement to determine the appropriate allocation of purchase consideration to the assets being acquired, including goodwill and identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 2.10 on an annual basis, or where an indication of impairment exists.

Our acquired intangible assets include mastheads, patents, trademarks, licences, brandnames and customer bases.

(d) Deferred expenditure

Deferred expenditure mainly includes costs incurred for basic access installations and connections fees for in place and new services, and direct incremental costs of establishing a customer contract.

Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

Handset subsidies are expensed as incurred. On transition to A-IFRS we elected to expense handset subsidies, which was a change from the previous policy whereby the cost of the subsidy was deferred and written off over the average contract term.

(e) Amortisation

The average amortisation periods of our identifiable intangible assets are as follows:

	Telstra Group	
	As at 30 June	
	2006	**2005**
Identifiable intangible assets	**Expected benefit (years)**	**Expected benefit (years)**
Software assets	**6**	6
Patent and trademarks	**19**	19
Licences	**12**	11
Brandnames	**19**	20
Customer bases	**11**	13
Deferred expenditure	**4**	4

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense (either increasing or decreasing) through to the end of the reassessed useful life for both that current year and future years. The net effect of the reassessment for fiscal 2006 was an increase in our amortisation expense of $160 million (2005: $nil) for the Telstra Group and $145 million (2005: $nil) for the Telstra Entity. This reassessment includes the adjustment arising from our transformation resulting from the strategic review undertaken, refer to note 7(b) for further information.

In relation to acquired intangible assets, we apply management judgement to determine the amortisation period based on the expected useful lives of the respective assets. In some cases, the useful lives of certain acquired intangible assets are supported by external valuation advice on acquisition. In addition, we apply management judgement to assess annually, the indefinite useful life assumption applied to certain acquired intangible assets.

2.14 Trade and other payables

Trade and other payables, including accruals, are recorded when we are required to make future payments as a result of a purchase of assets or services.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.15 Borrowings

Our borrowings fall into two categories:

(a) Borrowings in a designated hedging relationship

Our offshore borrowings which are designated as hedged items are subject to either fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges (to hedge against changes in value due to interest rate or currency movements) is adjusted for fair value movements attributable to the hedged risk. Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve which is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument.

Borrowings subject to cash flow hedges (to hedge against currency movements) are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost, translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds is recognised in the income statement over the borrowing period using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Currency gains or losses on the borrowings are recognised in the income statement, along with the associated gains or losses on the hedging instrument, which have been transferred from the cash flow hedging reserve to the income statement.

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include commercial paper borrowings, Telstra Bonds, loans from associates, unsecured promissory notes and other borrowings.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instrument and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

Borrowings are included as non current liabilities except for those with maturities less than twelve months from the balance sheet date, which are classified as current liabilities.

2.16 Provisions

Provisions are recognised when the group has:

- a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related on costs.

Certain employees who have been employed by Telstra for at least ten years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of balance date, including long service leave, at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.16 Provisions (continued)

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

We apply management judgment in estimating the following key assumptions used in the calculation of our long service leave provision at reporting date:

- weighted average projected increases in salaries;
- weighted average discount rate; and
- leave taking rate.

Refer to note 19 for further details on the key management judgements used in the calculation of our long service leave provision.

(b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

(c) Restoration costs

We provide for costs of restoration or removal in relation to our fixed assets when we have a legal or constructive obligation. These costs include our obligations relating to the dismantling, removal, remediation, restoration and other expenditure associated with our fixed assets or site fitouts. Restoration provisions are initially recorded when a reliable estimate of the costs to be incurred can be determined, discounted to present value. Our estimates are based upon a review of lease contracts, legal requirements, historical information and expected future costs. Any changes to these estimates are adjusted on a progressive basis as required.

Where restoration costs are incurred due to the acquisition, construction or development of a non current asset, the provision is raised and recorded at that time as part of the cost of the asset where the cost is reliably measurable.

(d) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out with those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that the restructuring will be carried out.

2.17 Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity, net of tax, as a reduction of the share proceeds received.

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back, net of tax, are also deducted from contributed equity. We also record the purchase of Telstra Entity shares by our employee share plan trusts as a reduction in share capital.

Share based remuneration associated with our employee share plans is recognised as additional share capital. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

Refer to note 2.25 for further details regarding our accounting for employee share plans.

2.18 Revenue recognition

The underlying accounting principles of revenue recognition are generally the same for both A-IFRS and the United States Generally Accepted Accounting Principles (USGAAP). As such we have applied the more detailed guidance under USGAAP to the timing of revenue recognition for both A-IFRS and USGAAP financial statements where there is no conflict between the two.

Sales revenue

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, duties and taxes.

(a) Rendering of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.18 Revenue (continued)

We record revenue earned from:

- telephone calls on completion of the call; and
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Also refer to note 2.13(d).

In relation to basic access installation and connection revenue, we apply our management judgement to determine the estimated customer contract life. Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2005: 5 years). As a result, basic access installation and connection revenue is recognised over this period.

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

Generally we record the full gross amount of sales proceeds as revenue, however if we are acting as an agent under a sales arrangement, we record the revenue on a net basis, being the gross amount billed less the amount paid to the supplier. We review the facts and circumstances of each sales arrangement to determine if we are an agent or principal under the sale arrangement.

(c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue of providing access to the network is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract.

Our construction contracts are classified according to their type. There are three types of construction contracts, these being material intensive, labour intensive and short duration. Revenue is recognised on a percentage of completion basis using the appropriate measures as follows:

- (actual costs / planned costs) x planned revenue - for material intensive projects;
- (actual labour hours / planned labour hours) x planned revenue - for labour intensive projects; and
- short duration projects are those that are expected to be completed within a month and revenues and costs are recognised on completion.

(e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages and White Pages directory revenues are recognised on delivery of the published directories using the delivery method. We consider our directories delivered when they have been published and delivered to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

(f) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument (total return).

Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.18 Revenue (continued)

We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The revenue allocated to each unit is then recognised in accordance with our revenue recognition policies previously described above.

2.19 Advertising expenses

Costs for advertising products and services or promoting our corporate image are expensed as incurred. These costs are included in promotion and advertising expenses within our other expenses category.

2.20 Borrowing costs

Borrowing costs are recognised as an expense in our income statement when incurred.

2.21 Taxation

(a) Income taxes

Our income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Deferred tax is calculated at the tax rates that are expected to apply to the period when our asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

We apply the balance sheet liability method for calculating our deferred tax. Deferred tax is the expected tax payable or recoverable on all taxable and deductible temporary differences determined through reference to the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as at the reporting date.

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit or taxable income at the time of the transaction.

In respect of our investments in subsidiaries, associates and jointly controlled entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Subject to the exceptions described above, we generally recognise deferred tax assets for all deductible temporary differences and for the carry forward of unused tax losses and tax credits. These tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses and tax credits can be utilised.

In respect of our investments in subsidiaries, associates and jointly controlled entities, we recognise deferred tax assets for all deductible temporary differences provided it is probable that our temporary differences will reverse in the future and taxable profit will be available against which our temporary differences can be utilised.

The carrying amount of our deferred tax assets is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

Our current and deferred tax is recognised as an expense or revenue in the income statement, except when it relates to items directly debited or credited to equity, in which case our current and deferred tax is also recognised directly in equity.

The Telstra Entity and its Australian resident wholly owned entities elected to form a tax consolidated group from 1 July 2002. The Telstra Entity, as the head entity in the tax consolidated group, recognises in addition to its transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the group. The Telstra Entity and the entities in the tax consolidated group account for their own current tax expense and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer within the group.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.21 Taxation (continued)

Under our tax funding arrangements, amounts receivable recognised by the Telstra Entity for the current tax payable assumed of our wholly owned entities are booked as a current receivable. Amounts payable recognised by the Telstra Entity for the current tax receivable of our wholly owned entities are booked as a current payable. Amounts relating to unused tax losses and tax credits of the wholly owned entities and assumed by the Telstra Entity are recorded as dividend revenue. During fiscal 2005, no tax funding arrangement was in place and as a result, these funding amounts were recorded as equity contributions to or distributions from our controlled entities.

We offset deferred tax assets and deferred tax liabilities in the balance sheet where they relate to income taxes levied by the same taxation authority and to the extent that we intend to settle our current tax assets and liabilities on a net basis. Our deferred tax assets and deferred tax liabilities are netted within the tax consolidation group, as these deferred tax balances relate to the same taxation authority. We do not net deferred tax balances between controlled entities, apart from those within the tax consolidation group.

(b) Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

2.22 Earnings per share

(a) Basic earnings per share

Basic earnings per share (EPS) is determined by dividing profit for the year after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

2.23 Insurance

We specifically carry the following types of insurance:

- property;
- travel/personal accident;
- third party liability;
- directors' and officers' liability;
- company reimbursement; and
- other insurance from time to time.

For risks not covered by insurance, any losses are charged to the income statement in the year in which the loss is reported.

The Telstra Entity and certain controlled entities are self insured for workers' compensation.

2.24 Post-employment benefits

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

We currently sponsor a number of post-employment benefit plans. As these plans have elements of both defined contribution and defined benefit, these hybrid plans are treated as defined benefit plans in accordance with AASB 119: "Employee Benefits". We recognise an asset/(liability) for the net surplus/(deficit) recorded in each of our post-employment defined benefit plans.

At reporting date, where the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as we have the ability to control this surplus to generate future funds that are available to us in the form of reductions in future contributions or as a cash refund.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit would be recognised as a liability.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.24 Post-employment benefits (continued)

We use fair value to determine the value of the plan assets at reporting date. Fair value is calculated by reference to the net market values of the plan assets.

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from our current and past employee services. This obligation is influenced by many factors, including final salaries and employee turnover. We employ qualified actuaries to calculate the present value of the defined benefit obligations. These obligations are measured net of tax.

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of each plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on government guaranteed securities with similar due dates to these expected cash flows.

We recognise all our defined benefit costs in the income statement with the exception of actuarial gains and losses that are recognised directly in retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on assets. Current and past service cost represents the increase in the present value of the defined benefit obligation resulting from our employees' service in the current and prior periods respectively. Interest cost represents the increase in the present value of the defined benefit obligation resulting from the employee benefits being one period closer to settlement. Expected return on assets represents movement in market value interest, dividends and other revenue items that is expected to be derived from plan assets.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

The actuaries apply judgment in estimating the following key assumptions used in the calculation of our defined benefit assets at reporting date:

- discount rates;
- salary inflation rate; and
- expected return on plan assets.

The estimates applied in our calculation have a significant impact on the reported amount of our defined benefit plan assets of $1,029 million (2005: $247 million). If the estimates prove to be incorrect, the carrying value of our defined benefit assets may be materially impacted in the next reporting period. Additional volatility may also potentially be recorded in retained profits to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

Refer to note 28 for details on the key estimates used in the calculation of our defined benefit assets.

2.25 Employee share plans

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

The Telstra Growthshare Trust (Growthshare) was established to allocate equity based instruments as required. Current equity based instruments include options, restricted shares, performance rights, deferred shares, incentive shares, directshares and ownshares. Options, performance rights, and restricted shares are subject to performance hurdles. Deferred shares and incentive shares are subject to a specified period of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share-based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique consistent with the Black Scholes methodology which utilises Monte Carlo simulations, to estimate the price of those equity instruments in an arms length transaction between knowledgeable, willing parties. The fair value is charged against profit over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

Under the transitional exemptions of AASB 1, we have elected not to apply the requirements of AASB 2: "Share-Based Payment" (AASB 2) to equity instruments granted prior to 7 November 2002.

Directshare enables non-executive directors to acquire a minimum of 20% of their fees in Telstra shares. Ownshare enables eligible employees to be provided part of their remuneration in Telstra shares. Telstra purchases shares on market to meet the requirements of directshare and ownshare and expenses these costs as part of the participant's remuneration.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.26 Derivative financial instruments

We use derivative financial instruments such as forward exchange contracts, cross currency swaps and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

The use of hedging instruments is governed by the guidelines set by our Board of Directors.

(a) From 1 July 2004 to 30 June 2005

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

(b) Adjustments on transition date: 1 July 2005

Under AASB 132/139, our accounting policy has changed to recognise our financial instruments in the balance sheet and to record all derivatives at fair value. At the date of transition, changes in the carrying amounts of derivatives are taken to retained profits or reserves, depending on the hedge type. For further information concerning the adjustments on transition date reference should be made to note 36.

(c) From 1 July 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract, recorded as a hedge receivable or hedge payable in our balance sheet. We do not offset the hedge receivable or hedge payable with the underlying financial asset or financial liability being hedged, as the transactions are generally with different counterparties and are not generally settled on a net basis.

Where we have a legally recognised right to set off the financial asset and the financial liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our balance sheet. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our balance sheet.

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness may result in significant volatility in the income statement.

In order for a derivative instrument to qualify for hedge accounting it must be formally designated and documented as a hedge of a particular item or transaction, it must be expected to be highly effective in offsetting changes in cash flows or fair value of the hedged item, and for cash flow hedges of forecast transactions, the forecast transaction must be highly probable.

We document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedge instrument are recognised in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged. This will increase volatility of reported profits due to the inclusion of some ineffectiveness arising from the application of hedge accounting.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.26 Derivative financial instruments (continued)

(ii) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period. Cash flow hedges are used for our foreign currency borrowings, and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument are recognised directly in equity in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed asset), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the income statement.

If a forecast hedged transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were reported in equity are transferred immediately to the income statement.

(iii) Hedges of a net investment in a foreign operation

Our investments in foreign operations are exposed to foreign currency risk, which arises when we translate the net assets of our foreign investments from their functional currency to Australian dollars. We hedge our net investments to mitigate exposure to this risk by using forward foreign currency contracts, cross currency swaps and/or commercial paper in the relevant currency of the investment.

Gains and losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent they are considered to be effective.

The cumulative amount of the recognised gains or losses included in equity are transferred to the income statement when the foreign operation is sold.

For all of our hedging instruments (fair value, cash flow or net investment), any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective are recognised directly in the income statement in the period in which they occur.

(iv) Derivatives that are not in a designated hedging relationship

For any ‘held for trading’ derivative instruments, i.e. those which are not in a designated hedging relationship, any gains or losses on remeasuring the instruments to fair value are recognised directly in the income statement in the period in which they occur.

(v) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.27 Fair value estimation

The fair value of our derivatives and some financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Valuation techniques include where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm's length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models.

We calculate the fair value of our forward exchange contracts by reference to forward exchange market rates for contracts with similar maturity profiles at the time of valuation.

The net fair values of our cross currency and interest rate swaps and other financial assets and financial liabilities that are measured at fair value (apart from our listed investments) are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. The net fair values of our listed investments are determined by reference to prices quoted on the relevant stock exchanges where the securities are traded.

Unless there is evidence to suggest otherwise, the nominal value of financial assets and financial liabilities less any adjustments for impairment with a short term to maturity are considered to approximate net fair value.

2.28 Financial assets

From 1 July 2004 to 30 June 2005

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

(a) Adjustments on transition date: 1 July 2005

The nature of the main adjustments to ensure this information complies with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. At the date of transition, adjustments to carrying amounts are taken to retained profits or reserves. With the exception of those financial assets which are designated in hedge relationships (refer to note 2.26), at the date of transition to AASB 132 and AASB 139 there were no significant adjustments to carrying amounts. For further information concerning the adjustments on transition date, reference should be made to note 36.

(b) From 1 July 2005

We classify our financial assets in the following categories. These are financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. We determine the classification at initial recognition and re-evaluate this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance date.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when we provide money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities where we have the positive intention and ability to hold to maturity.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.28 Financial assets (continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method less impairment. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

In the event that we have 'financial assets at fair value through the profit or loss' realised and unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity in the available-for-sale investments reserve. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments, previously recognised in equity, are included in the income statement.

Purchases and sales of financial assets are recognised on settlement date - the date on which we receive or deliver an asset. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

2.29 Financial instrument transaction costs

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, transaction costs were excluded from the carrying value of our financial assets and financial liabilities disclosed in the financial report. Under A-IFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts was immaterial.

Notes to the Financial Statements (continued)

3. Earnings per share

	Telstra Group Year ended 30 June	
	2006	2005
	¢	¢
Basic earnings per share	**25.7**	34.7
Diluted earnings per share	**25.7**	34.6
	$m	$m
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year	**3,181**	4,309
	Number of shares (millions)	
Weighted average number of ordinary shares (a)		
Weighted average number of ordinary shares used in the calculation of basic earnings per share (b)	**12,366**	12,430
Effect of dilutive employee share instruments (c)	**35**	37
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**12,401**	12,467

(a) In order to underpin the equity instruments issued under the Growthshare plan, Growthshare purchase shares on market. These shares are not considered to be outstanding for the purposes of computing basic and diluted earnings per share.

(b) During fiscal 2005, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our capital management program. The ordinary shares were bought back at $4.05 per share, comprising a fully franked dividend component of $2.55 per share and a capital component of $1.50 per share. The Commonwealth of Australia did not participate in the share buy-back.

Refer to note 21 for full details on our movement in issued ordinary shares, including further discussion on our prior year share buy-back.

(c) In fiscal 2006 and fiscal 2005, the following equity instruments are considered dilutive to earnings per share:

- deferred share instruments issued under Telstra Growthshare Trust (Growthshare);
- incentive shares granted under the Growthshare short term incentive scheme; and
- share options issued under Telstra Employee Share Ownership Plan I (TESOP97).

In fiscal 2006 and fiscal 2005, the following equity instruments are not considered dilutive to earnings per share:

- performance rights, restricted shares and options issued under Growthshare; and
- share options issued under Telstra Employee Share Ownership Plan II (TESOP99).

Refer to note 31 for details regarding equity instruments issued under the Growthshare and TESOP share plans.

Notes to the Financial Statements (continued)

4. Dividends

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Dividends paid				
Previous year final dividend paid	**1,739**	1,639	**1,739**	1,639
Previous year special dividend paid with the final dividend	**746**	-	**746**	-
Interim dividend paid	**1,739**	1,739	**1,739**	1,739
Special dividend paid with the interim dividend	**746**	746	**746**	746
Total dividends paid	**4,970**	4,124	**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		

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

Dividends per ordinary share declared

Our dividends declared per share in respect of 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	**14.0**	14.0
Special dividend paid with the interim dividend	**6.0**	6.0
Final dividend (a)	**14.0**	14.0
Special dividend paid with the final dividend	**-**	6.0
Total	**34.0**	40.0

(a) 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 34 for further details.

Notes to the Financial Statements (continued)

4. Dividends (continued)

	Telstra Entity	
	Year ended 30 June	
	2006	2005
	$m	$m
The combined amount of exempting and franking credits available to us for the next fiscal year are:		
Combined exempting and franking account balance (a)	**6**	285
Franking credits that will arise from the payment of income tax payable as at 30 June (b)	**400**	519
Franking credits and exempting credits that we may be prevented from distributing in the next fiscal year	**(24)**	(24)
	382	780
Franking debits that will arise on the payment of dividends declared after 30 June (c)		
Final dividend	**745**	745
Special dividend paid with the final dividend	**-**	320
	745	1,065

(a) Previously, the Telstra Entity and its Australian resident wholly owned entities elected to form a tax consolidated group. As part of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes. On entry into tax consolidation, the franking credits held in the franking accounts and exempting accounts of the subsidiary members was transferred to the Telstra Entity. As a result, one franking account and one exempting account is maintained by the Telstra Entity for the tax consolidated group.

As at 30 June 2006, the Telstra Entity had a combined exempting and franking account balance of $6 million (2005: $285 million). This total combines the deficit in our franking account of $18 million (2005: surplus of $261 million) and a surplus of $24 million (2005: $24 million) in our exempting account.

The franking account balance represents the amount of tax paid by the entity that is available for distribution to shareholders. As at 30 June 2006, our franking account balance was in deficit. As a result, we are required to pay franking deficit tax of $18 million in July 2006, which will eliminate the deficit in the franking account balance and be fully offset against our fiscal 2006 income tax assessment. In relation to our exempting account, there are statutory restrictions placed on the distribution of credits from this account.

Additional franking credits will arise when the Telstra Entity pays tax instalments during fiscal 2007, relating to the fiscal 2006 and 2007 income tax years. Franking credits will be used when the Telstra Entity pays its 2006 final ordinary dividend during fiscal 2007.

(b) Franking credits that will arise from the payment of income tax are expressed at the 30% tax rate on a tax paid basis. This balance represents the current tax liabilities as at 30 June 2006 for the tax consolidated group.

(c) The franking debits that will arise when we pay our final ordinary dividend are expressed as the amount of franking credits that will be attached to a fully franked distribution.

We believe our current balance of franking credits combined with the franking credits that will arise on tax instalments expected to be paid during fiscal 2007, will be sufficient to cover the franking debits arising from our final dividend. Refer to note 34 for further details in relation to our dividends declared subsequent to year end.

Notes to the Financial Statements (continued)

5. 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.

Our internal management reporting structure drives how our Company is organised and managed. This internal structure provides the initial basis for determining our business segments.

Our business segments are predominantly distinguishable by the different type of customers we deliver our key products and services to. Our customer facing business segments service different customer types. Other reportable business segments are also aligned with our specific customer or business needs. These segments provide operational support services or product support services to our customer facing business segments, or service other telecommunication carriers. Our "Other" segment consists of various business units that do not qualify as business segments in their own right and which service a variety of customer or business needs.

The main adjustments from our internal management reporting structure to our reported business segments are in relation to certain offshore operations. For internal management reporting purposes, our TelstraClear group (TelstraClear) is included with Telstra Enterprise and Government, our CSL New World Mobility group (CSL New World) is a business unit in its own right, and the International Head Office group is included as part of Strategic Marketing. These offshore operations are reported as part of a segment we have called Telstra International for segment reporting purposes.

For the purposes of the applicable accounting standard, we consider that the risks and returns of these offshore operations differ from those of our local operations and as a result we have grouped these operations into the Telstra International business segment.

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.

Notes to the Financial Statements (continued)

5. Segment information (continued)

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.

Telstra BigPond is responsible for:
- the management and control of our retail Internet products, services and content, contact centres, customer relations and associated functions, for broadband and narrowband delivery.

Telstra Media is responsible for:
- the management of our investment interest in the FOXTEL partnership;
- the development and management of the hybrid fibre coaxial (HFC) cable network; and
- investigation and development of an interactive PayTV (IPTV) service.

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 include:

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

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment financial results

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. As a result, our segment revenues, segment expenses, segment assets and segment liabilities do not reflect actual operating results achieved for our business segments in certain circumstances.

The following narrative further explains our segment results for those individual items where it is considered that no reasonable allocation basis exists:

- Sales revenue associated with mobile handsets for TC&C, TB and TE&G are allocated totally to the TC&C segment, with the exception of some products sold in relation to small to medium enterprises which are allocated to TB. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&C, TB and TE&G depending on the type of customer serviced. In addition, the majority of goods and services purchased associated with our mobile revenues are allocated to the TC&C segment. As a result, the TC&C segment also holds segment assets and segment liabilities related to those revenues and expenses recorded in TC&C;
- trade debtors in relation to the mobile repayment option on mobile handsets sold by our dealers are allocated totally to TC&C; and
- revenue received in advance in relation to installation and connection fees is allocated totally to TC&C.

These allocations reflect management's accountability framework and internal reporting system and accordingly no reasonable basis for reallocation to the respective business segments exist.

In addition, revenue derived from our BigPond Internet products and its related segment assets are recorded in the customer facing business segments of TC&C, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognise certain expenses in relation to the installation and running of the broadband cable network. The related segment assets are managed by the Asset Accounting Group. In accordance with our application of the business segment definition in relation to customer type, we have not reallocated these items to the Telstra Bigpond business segment.

Change in segment accounting policies

The following segment accounting policy changes 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 2005 to reflect this change in policy.

Segment assets and liabilities

Segment assets and segment liabilities form part of the operating activities of a segment and can be allocated directly to that segment.

The Asset Accounting Group performs a company wide function in relation to the financial management of certain assets. These assets are accounted for at the corporate level (aggregated in the "Other" segment) and not allocated across segments.

The "Other" segment also includes balances that do not meet the definition of segment assets and segment liabilities for our reportable business segments. As a result, borrowings and income tax assets and liabilities were recorded as reconciling items within the "Other" segment.

Inter-segment transfers

We account for all transactions of entities within the Telstra Group, including international transactions between Australian and non-Australian businesses, at market value. For segment reporting purposes, transfer pricing is not used within the Company. As such the inter-segment revenue line purely relates to intercompany revenue.

The Asset Accounting Group does not allocate depreciation expense related to the use of assets owned at the corporate level to other business segments.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	TC&C	TB	TE&G	TW	Sensis	TInt.	TO	Other (a)	Elimina-tions	Total
Year ended 30 June 2006	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
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 investments	-	-	4	-	-	58	-	-	-	62
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	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 our 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 is 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 Financial Statements (continued)

5. Segment information (continued)

Telstra Group

Year ended 30 June 2005	TC&C $m	TB $m	TE&G $m	TW $m	Sensis $m	TInt. $m	TO $m	Other (a) $m	Eliminations $m	Total $m
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 investments	66	-	-	-	-	13	-	-	-	79
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	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 our 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 is 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 excludes income tax liabilities and borrowings, which are included as part of the other segment.

Notes to the Financial Statements (continued)

5. Segment information (continued)

	Note	Telstra Group Year ended 30 June 2006 $m	2005 $m
Reconciliation of segment results to Telstra Group position:			
Earnings before interest and income tax expense (EBIT)		**5,497**	6,935
Finance income		**66**	83
Finance costs		**(1,002)**	(963)
Profit before income tax expense		**4,561**	6,055
Income tax expense		**(1,380)**	(1,746)
Profit for the year		**3,181**	4,309
Information about sales revenue from our products and services:			
PSTN products			
Basic access		**3,318**	3,362
Local calls		**1,023**	1,284
PSTN value added services		**246**	250
National long distance calls		**913**	1,013
Fixed to mobile		**1,491**	1,566
International direct		**201**	234
Fixed interconnection		**286**	309
		7,478	8,018
Mobiles			
Mobile services		**4,505**	4,307
Mobile handsets		**467**	381
		4,972	4,688
Data and internet services			
Internet and IP solutions		**1,907**	1,377
ISDN products		**807**	890
Specialised data		**884**	966
		3,598	3,233
Other products and services			
Advertising and directories		**1,711**	1,585
Customer premises equipment		**274**	231
Payphones		**104**	121
Intercarrier services		**351**	290
Inbound calling products		**449**	449
Solutions management		**989**	931
Offshore controlled entities (a)		**1,745**	1,611
Pay TV bundling		**320**	263
Other sales and service		**759**	741
		6,702	6,222
Sales revenue		**22,750**	22,161
Other revenue (excluding finance income)		**22**	20
Total revenue (excluding finance income)	6	**22,772**	22,181

Notes to the Financial Statements (continued)

5. Segment information (continued)

	Telstra Group Year ended 30 June 2006 $m	Telstra Group Year ended 30 June 2005 $m
Information about revenue from our products and services (continued):		
(a) Sales revenue from our offshore controlled entities is split between the following products and services:		
International - PSTN products	**446**	484
International - Mobiles	**849**	751
International - Data and internet services	**287**	264
International - Intercarrier services	**20**	24
International - Other	**143**	88
	1,745	1,611
Information about our geographic operations (i)		
Segment revenue from external customers		
Australian customers	**21,014**	20,556
International customers	**1,758**	1,625
	22,772	22,181
Carrying amount of segment assets		
Australian customers	**31,966**	31,245
International customers	**4,209**	3,966
	36,175	35,211
Non current segment assets acquired (excluding acquisition of investments)		
Located in Australia	**4,256**	3,800
Located in international countries	**224**	246
	4,480	4,046

(i) Our geographical operations are split between our Australian and international operations. Our international operations include the business of our international business segment (primarily businesses in Hong Kong and New Zealand) and our international business that serves multi-national customers in the TE&G segment. No individual geographical area forms a significant part of our operations apart from our Australian operations.

Notes to the Financial Statements (continued)

6. Income

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Sales revenue					
Rendering of services		**12,427**	12,522	**10,427**	10,783
Sale of goods		**808**	691	**536**	430
Rent of network facilities		**7,653**	7,233	**7,655**	7,233
Construction contracts		**151**	130	**174**	136
Advertising and directory services		**1,711**	1,585	**464**	377
Procurement (a)		**-**	-	**647**	628
		22,750	22,161	**19,903**	19,587
Other revenue (excluding finance income)					
Dividend revenue					
- controlled entities	33	**-**	-	**560**	223
- jointly controlled entities	33	**-**	-	**-**	1
		-	-	**560**	224
Rent from property and motor vehicles		**22**	20	**22**	20
		22	20	**582**	244
Total revenue (excluding finance income)		**22,772**	22,181	**20,485**	19,831
Other income					
Net gain on disposal of:					
- property, plant and equipment		**23**	9	**20**	10
- investments in controlled entities		**4**	-	**-**	-
- investments in jointly controlled and associated entities		**58**	16	**59**	26
- investments in listed securities and other investments		**-**	63	**-**	59
		85	88	**79**	95
Other miscellaneous income (b)		**243**	173	**84**	38
		328	261	**163**	133
Total income (excluding finance income)		**23,100**	22,442	**20,648**	19,964
Finance income					
- interest on cash and cash equivalents		**66**	83	**60**	78
- other		**-**	-	**3**	23
		66	83	**63**	101
Total income		**23,166**	22,525	**20,711**	20,065

Notes to the Financial Statements (continued)

6. Income (continued)

(a) The Telstra Entity receives procurement revenue from its controlled entity Sensis Pty Ltd for the use of Yellow Pages® and White Pages® trademarks. Refer to note 33 for further details on transactions involving our related parties.

(b) Other miscellaneous income includes revenue recognised from subsidies received on the Higher Bandwidth Incentive Scheme (HiBIS) and Broadband Connect Incentive Scheme.

HiBiS, which has now concluded, and its replacement program, Broadband Connect, were established by the Commonwealth to allow service providers to provide high bandwidth services to eligible customers in the regional, rural and remote areas of Australia at prices broadly comparable to those prices charged to customers in metropolitan areas.

As a service provider, we are able to claim a rebate from the Commonwealth for each registered HiBIS or Broadband Connect service we provide to an eligible customer. The purpose of the incentive payment is to cover the short fall of providing these services to eligible customers in the regional, rural and remote areas of Australia at metropolitan prices. We recognise these incentive payments as other income.

We have no significant unfulfilled conditions and other contingencies relating to our obligations under the HiBIS and Broadband Connect programs.

Notes to the Financial Statements (continued)

7. Profit from continuing operations

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
(a) Profit before income tax expense (including items disclosed in note 7(b)) has been calculated after charging/(crediting) the following items:					
Labour					
Included in our labour expenses are the following:					
Employee redundancy (b)		**534**	91	**516**	85
Share based payments	21	**15**	10	**15**	10
Defined benefit plan expense	28	**185**	203	**182**	201
Goods and services purchased					
Included in our goods and services purchased are the following:					
Cost of goods sold		**1,421**	1,150	**1,087**	882
Rental expense on managed services		**69**	67	**64**	62
Other expenses					
Impairment losses:					
- impairment in value of inventories (b)		**53**	11	**53**	11
- impairment in value of trade and other receivables (b)		**161**	150	**138**	131
- impairment in value of investments (b) (i)		**-**	6	**245**	27
- impairment in amounts owed by controlled entities (b)	33	**-**	-	**382**	475
- impairment in amounts owed by jointly controlled entities	33	**2**	5	**-**	-
- impairment in value of intangibles (b) (ii)		**66**	1	**64**	-
- impairment in value of property, plant and equipment (b) (ii)		**69**	17	**69**	17
		351	190	**951**	661
Reversal of impairment losses:					
- reversal of impairment in value of trade and other receivables		**(22)**	-	**(22)**	-
- reversal of impairment in value of investments (b)		**-**	-	**(15)**	(334)
- reversal of impairment in amounts owed by controlled entities	33	**-**	-	**-**	(15)
		(22)	-	**(37)**	(349)
Rental expense on operating leases		**667**	675	**496**	502
Net foreign currency translation losses/(gains)		**2**	(40)	**(50)**	(5)
Remuneration of auditors	8	**8**	7	**6**	6
Service contracts and other agreements		**1,836**	1,556	**1,796**	1,521
Promotion and advertising		**356**	330	**285**	253
General and administration		**723**	739	**542**	564
Other operating expenses (b)		**506**	358	**573**	325
		4,427	3,815	**4,562**	3,478

(i) We have recognised impairment losses relating to the value of our investments in controlled entities, jointly controlled and associated entities, and other entities based on the value in use calculation. The impairment loss in the value of investment in controlled entities was eliminated on consolidation of the Telstra Group.

(ii) We have recognised impairment losses relating to project costs that were capitalised within capitalised software forming part of intangible assets and property, plant and equipment. These projects have subsequently been cancelled and the costs recognised in the income statement as an impairment loss. In fiscal 2006, additional impairment losses were recognised reflecting additional write offs due to our transformation, refer note 7(b) for details.

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
(a) Profit before income tax expense (including items disclosed in note 7(b)) has been calculated after charging/(crediting) the following items (continued):					
Depreciation of property, plant and equipment (b)					
- general purpose buildings including leasehold improvements	14	**62**	54	**54**	47
- communication assets including leasehold improvements	14	**2,953**	2,615	**2,786**	2,508
- communication assets under finance lease	14	**67**	75	**67**	75
- equipment under finance lease	14	**8**	9	**6**	7
- other plant, equipment and motor vehicles	14	**93**	123	**45**	50
		3,183	2,876	**2,958**	2,687
Amortisation of intangible assets					
- patents and trademarks	15	**2**	2	**4**	4
- licences	15	**58**	37	**18**	18
- brandnames	15	**11**	10	**-**	-
- customer bases	15	**98**	86	**13**	15
- deferred expenditure		**9**	8	**35**	10
- software assets (b)	15	**726**	510	**629**	472
		904	653	**699**	519
		4,087	3,529	**3,657**	3,206
Finance costs					
- interest on bills of exchange and commercial paper		**65**	35	**65**	35
- interest on Telstra bonds		**486**	223	**486**	223
- interest on other loans		**242**	497	**242**	497
- interest on derivative instruments		**169**	164	**169**	164
- interest on finance leases		**6**	7	**2**	3
- unwinding of discount on liabilities recognised at present value		**40**	35	**9**	2
- gain in fair value hedge instruments		**(26)**	-	**(26)**	-
- other		**20**	2	**38**	19
		1,002	963	**985**	943
Research and development					
Research and development expenses		**23**	29	**23**	29

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

(b) Income statement items requiring specific disclosure

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

Our profit for the year has been calculated after charging specific expense items from our continuing operations as detailed below:

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Redundancy and restructuring related costs (i)					
Labour					
- redundancy expense		**356**	-	**352**	-
- restructuring expense		**50**	-	**50**	-
		406	-	**402**	-
Goods and services purchased					
- restructuring expense		**54**	-	**54**	-
Other expenses					
- restructuring expense		**105**	-	**105**	-
- impairment in value of inventories		**18**	-	**18**	-
- impairment in value of trade and other receivables		**14**	-	**14**	-
- impairment in value of intangibles		**61**	-	**61**	-
- impairment in value of property, plant and equipment		**46**	-	**46**	-
		244	-	**244**	-
Depreciation and amortisation					
- accelerated amortisation of intangibles		**160**	-	**145**	-
- accelerated depreciation of property, plant and equipment		**262**	-	**262**	-
		422	-	**407**	-
		1,126	-	**1,107**	-
Other					
- impairment in value of controlled entities (ii)		**-**	-	**205**	-
- reversal of impairment in value of controlled entities (ii)		**-**	-	**-**	(334)
- impairment in amounts owed by controlled entities (iii)		**-**	-	**382**	475
		-	-	**587**	141
Total expense items		**1,126**	-	**1,694**	141
Income tax benefit attributable to those items requiring specific disclosure		**(338)**	-	**(332)**	-
Net items after income tax benefit		**788**	-	**1,362**	141

(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 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.

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

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 (refer to note 19);
- the provision for restructuring costs associated with shutting down certain networks, platforms and applications, property rationalisation, onerous lease costs and replacing customer equipment (refer to note 19);
- the impairment of certain assets due to the decision to shut down certain networks and platforms that are no longer considered recoverable. This also includes the decision to cancel certain projects relating to the development of software and the construction of property, plant and equipment; and
- the accelerated recognition of depreciation and amortisation of certain assets that, while currently in use, will be decommissioned as part of our decision to shut down certain networks, platforms and applications.

A total provision of $427 million has been raised for redundancy and restructuring for the Telstra Group 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.

(ii) In fiscal 2006, the profit before income tax expense of the Telstra Entity included an expense of $205 million in relation to the impairment of the value of three controlled entities. In fiscal 2005, the profit before income tax expense of the Telstra Entity included a $334 million net gain in relation to the reversal of an impairment of the value of four controlled entities. These balances are eliminated on consolidation for Telstra Group reporting purposes.

Each fiscal year, we review the value of our investment in controlled entities. As a result, we have incurred an impairment loss (or a reversal of an impairment loss) by assessing the carrying value of our controlled entity with its recoverable amount. We review our recoverable amount by reference to its value in use. Refer to note 25 for further details regarding impairment.

(iii) The profit before income tax expense of the Telstra Entity included an impairment loss of $382 million (2005: $475 million) relating to a movement in allowance for amounts owed by a controlled entity. This balance was eliminated on consolidation for Telstra Group purposes. Refer to note 25 for further details regarding impairment.

Notes to the Financial Statements (continued)

8. Remuneration of auditors

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Audit fees					
The Australian National Audit Office has charged the following amounts for:					
Auditing and reviewing the financial reports (i)		4.981	5.038	4.431	4.404
Ernst and Young has charged the following amounts for:					
Auditing and reviewing the financial reports (ii)		2.900	2.290	1.601	1.391
Total audit fees	7(a)	7.881	7.328	6.032	5.795
Other services					
In addition to auditing and reviewing the financial reports, other services were provided by Ernst and Young in their own right as follows:					
Audit related (iii)		0.829	0.571		
Tax (iv)		0.118	0.423		
Other services (v)		0.331	0.703		
Total other services		1.278	1.697		

Audit fees

(i) Our Australian statutory auditor is the Australian National Audit Office (ANAO). The audit provided by the ANAO has been subcontracted to Ernst and Young (EY) since fiscal 2000.

(ii) Audit fees charged by EY relate to audit services provided in completing our statutory and regulatory filings other than those subcontracted directly from the ANAO. These services include the audit and review of our offshore controlled entities, the regulatory audits and our USGAAP audit. In addition, this category includes the audit of our other statutory filings such as the filing we are required to make under Japanese law, and the annual report on Form 20-F to meet our United States listing requirements.

Other services

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non audit services. Fees earned by EY for non audit work are capped at a maximum of 1.0 times the total audit and audit related fees.

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 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 provision of non-audit services by EY 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.

EY has specific internal processes in place to ensure auditor independence.

(iii) Audit related fees charged by EY relate to services that are reasonably related to the performance of the audit or review of our financial statements, and other assurance engagements. These services include our privacy audit, various accounting advice provided and additional audit work arising on the acquisition of our newly acquired controlled entities.

(iv) Tax fees charged by EY mainly relates to licence fee and technical services including training and support services in relation to our tax return software.

(v) Other services relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial report, audit related and tax. These services include performance of system and security reviews, and various other reviews and non assurance services across the Company.

Notes to the Financial Statements (continued)

9. Income taxes

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Major components of income tax expense				
Current tax expense	**1,730**	1,740	**1,860**	1,907
Deferred tax resulting from the origination and reversal of temporary differences	**(386)**	4	**(411)**	(28)
Under provision of tax in prior years	**36**	2	**33**	3
	1,380	1,746	**1,482**	1,882
Notional income tax expense on profit differs from actual income tax expense recorded as follows:				
Profit before income tax expense	**4,561**	6,055	**4,719**	6,398
Notional income tax expense on profit calculated at 30% (a):	**1,368**	1,817	**1,416**	1,919
Which is adjusted by the tax effect of:				
Effect of different rates of tax on overseas income	**(19)**	(11)	**-**	-
Non assessable and non deductible items	**(5)**	(62)	**33**	(40)
Under provision of tax in prior years	**36**	2	**33**	3
Income tax expense on profit	**1,380**	1,746	**1,482**	1,882
Amounts recognised directly in equity during the year				
Deferred tax debited/(credited) directly in equity during the year	**291**	(24)	**289**	(24)

(a) The Commonwealth statutory income tax rate for fiscal 2006 and fiscal 2005 was 30%. This tax rate is the income tax rate applied to Australian resident companies pursuant to the Income Tax Rates Act.

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Deferred tax asset/(deferred tax liability)				
Deferred tax items recognised in income statement				
Property, plant and equipment	**(1,872)**	(1,918)	**(1,911)**	(2,019)
Intangible assets	**(356)**	(474)	**(175)**	(280)
Provision for employee entitlements	**268**	281	**246**	263
Revenue received in advance	**116**	130	**-**	5
Provision for workers' compensation	**65**	64	**62**	62
Allowance for doubtful debts	**42**	46	**33**	37
Defined benefit assets	**(45)**	(98)	**(43)**	(97)
Trade and other payables	**57**	38	**54**	36
Provision for redundancy	**56**	-	**55**	-
Other provisions	**91**	10	**85**	1
Income tax losses (a)	**106**	69	**-**	4
Other	**36**	26	**27**	3
	(1,436)	(1,826)	**(1,567)**	(1,985)
Deferred tax items recognised in equity (b)				
Defined benefit assets	**(260)**	24	**(258)**	24
Derivative financial instruments	**(7)**	-	**(7)**	-
	(267)	24	**(265)**	24
Net deferred tax liability	**(1,703)**	(1,802)	**(1,832)**	(1,961)
Our net deferred tax liability is split as follows (c):				
Deferred tax assets recognised in the balance sheet	**1**	2	**-**	-
Deferred tax liabilities recognised in the balance sheet	**(1,704)**	(1,804)	**(1,832)**	(1,961)
	(1,703)	(1,802)	**(1,832)**	(1,961)

(a) We have recognised a deferred tax asset for the unused tax losses of our offshore controlled entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. We have prepared management budgets and forecasts in line with our current knowledge of future events to support our view of sufficient future taxable profits being available to offset our unused tax losses.

(b) When the underlying transactions to which our deferred tax relates is recognised directly to equity in accordance with applicable accounting standards, the temporary differences associated with these adjustments are also recognised directly in equity.

(c) We are able to offset deferred tax assets and deferred tax liabilities in the balance sheet when they relate to income taxes levied by the same taxation authority and to the extent we intend to settle our current tax assets and liabilities on a net basis.

Our deferred tax assets and deferred tax liabilities are netted within the tax consolidation group, as these deferred tax balances relate to income taxes levied by the Australian Taxation Office. We do not net deferred tax balances between controlled entities, apart from those within the tax consolidation group.

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Deferred tax assets not recognised in the balance sheet (a):				
Income tax losses	**185**	161	**-**	-
Capital tax losses	**196**	198	**160**	161
Deductible temporary differences	**353**	334	**192**	99
	734	693	**352**	260

(a) Our deferred tax assets not recognised in the balance sheet may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit;
- the Telstra Entity and our controlled entities have sufficient future capital gains to be offset against those capital losses;
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

As at 30 June 2006, the deferred tax assets not recognised in our balance sheet are able to be carried forward indefinitely for both our domestic and offshore operations, except in relation to one offshore controlled entity that has income tax losses of $9 million (fiscal 2005: $13 million) that will expire in fiscal 2027.

In the event of the further privatisation of our Company, certain income tax losses and capital tax losses, not currently recognised as a deferred tax asset, may not be able to be utilised in the future to offset income tax and capital tax gains for some offshore controlled entities and the tax consolidated group. The ability to utilise income and capital losses in the future will depend on various factors, including the number of shares the Commonwealth continues to hold, either directly or indirectly.

Tax consolidation

The Telstra Entity and its Australian resident wholly owned entities previously elected to form a tax consolidated group. As part of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

The Telstra Entity, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the group. However, the Telstra Entity and its resident wholly owned entities account for their own current tax expense and deferred tax amounts.

Upon tax consolidation, the entities within the tax consolidated group entered into a tax sharing agreement. The terms of this agreement specified the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity for tax purposes.

During fiscal 2006, the entities within the tax consolidated group entered into a tax funding arrangement under which:

- the Telstra Entity compensates its wholly owned controlled entities for any current tax receivable assumed;
- the Telstra Entity compensates its wholly owned controlled entities for any deferred tax assets relating to unused tax losses and tax credits; and
- wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable of $40 million to the Telstra Entity and amounts payable from the Telstra Entity of $194 million under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. During fiscal 2005, no tax funding arrangement was in place and as a result these funding amounts were recorded as equity contributions to or distributions from our controlled entities.

Notes to the Financial Statements (continued)

10. Cash and cash equivalents

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Current				
Cash at bank and on hand	**238**	225	**87**	83
Bank deposits, bills of exchange and commercial paper (a)	**451**	1,323	**387**	1,285
	689	1,548	**474**	1,368

(a) Bank deposits are held in the short term money market. The carrying amount of bank deposits, bills of exchange and commercial paper approximates net fair value due to their short term to maturity.

Notes to the Financial Statements (continued)

11. Trade and other receivables

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Current					
Trade debtors (a)		**2,565**	2,434	**1,881**	1,774
Allowance for doubtful debts		**(144)**	(159)	**(110)**	(125)
		2,421	2,275	**1,771**	1,649
Amounts owed by controlled entities (other than trade debtors)	33	**-**	-	**2,267**	2,194
Allowance for amounts owed by controlled entities (other than trade debtors)	33	**-**	-	**(1,851)**	(1,469)
		-	-	**416**	725
Accrued revenue		**1,027**	976	**971**	929
Other receivables (b)		**262**	298	**195**	235
Allowance for doubtful debts (b)		**(9)**	-	**(9)**	-
		1,280	1,274	**1,157**	1,164
		3,701	3,549	**3,344**	3,538
Non current					
Amounts owed by controlled entities (other than trade debtors)	33	**-**	-	**60**	56
Amounts owed by jointly controlled and associated entities (c)	33	**229**	242	**210**	204
Allowance for amounts owed by jointly controlled and associated entities (c)	33	**(215)**	(210)	**(210)**	(204)
		14	32	**-**	-
Other receivables (b)		**78**	65	**72**	59
Allowance for doubtful debts (b)		**(5)**	-	**(5)**	-
		73	65	**67**	59
		87	97	**127**	115

(a) Our policy requires trade debtors to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade debtors has been provided for in the balance sheet.

(b) Our other receivables relates mainly to customer deferred debt. Our customer deferred debt allows eligible post paid customers the opportunity to repay the cost of their mobile handset and approved accessories monthly over 12, 18 or 24 months. The loan is provided interest free to our mobile postpaid customers.

(c) In fiscal 2006, amounts owed by jointly controlled and associated entities relates mainly to loans provided to Reach Ltd (Reach) of $210 million (2005: $204 million) and the 3GIS Partnership (3GIS) of $14 million (2005: $32 million). An allowance for the total loan provided to Reach has been recognised. Refer to note 33 for further details.

Notes to the Financial Statements (continued)

12. Inventories

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Current				
Finished goods recorded at net realisable value	**79**	4	**67**	-
Finished goods recorded at cost	**123**	197	**91**	167
Total finished goods	**202**	201	**158**	167
Raw materials and stores recorded at cost	**15**	16	**10**	12
Construction contracts (a)	**7**	15	**7**	15
	224	232	**175**	194
Non current				
Finished goods recorded at net realisable value	**15**	-	**15**	-
Finished goods recorded at cost	**5**	15	**5**	15
	20	15	**20**	15
(a) Construction contract disclosures are shown as follows:				
Contract costs incurred and recognised profits	**108**	69	**108**	69
Progress billings	**(101)**	(54)	**(101)**	(54)
	7	15	**7**	15
Advances received for construction work in progress (included in trade and other payables)	**7**	7	**7**	7

Notes to the Financial Statements (continued)

13. Investments

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Investments - accounted for using the equity method					
Investments in jointly controlled entities		**4**	40	**2**	83
Allowance for impairment in value		**(2)**	(4)	**(2)**	(50)
Carrying amount of investments in jointly controlled entities	30	**2**	36	**-**	33
Investments in associated entities		**45**	36	**18**	33
Allowance for impairment in value		**(24)**	(24)	**-**	(25)
Carrying amount of investments in associated entities	30	**21**	12	**18**	8
		23	48	**18**	41
Investments - other					
Investments in controlled entities	29	**-**	-	**13,062**	12,975
Allowance for impairment in value		**-**	-	**(7,109)**	(6,839)
Total investments in controlled entities		**-**	-	**5,953**	6,136

Notes to the Financial Statements (continued)

14. Property, plant and equipment

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Land and site improvements				
At cost	**35**	40	**32**	37
Buildings (including leasehold improvements)				
At cost	**822**	822	**706**	722
Accumulated depreciation/impairment	**(392)**	(392)	**(352)**	(356)
	430	430	**354**	366
Communication assets (including leasehold improvements)				
At cost	**45,848**	43,217	**43,222**	41,127
Accumulated depreciation/impairment	**(23,398)**	(21,541)	**(22,393)**	(20,946)
	22,450	21,676	**20,829**	20,181
Communication assets under finance lease				
At cost	**858**	858	**858**	858
Accumulated depreciation/impairment	**(501)**	(434)	**(501)**	(434)
	357	424	**357**	424
Other plant, equipment and motor vehicles				
At cost	**1,068**	1,011	**692**	753
Accumulated depreciation/impairment	**(740)**	(710)	**(519)**	(554)
	328	301	**173**	199
Equipment under finance lease				
At cost	**60**	52	**33**	26
Accumulated depreciation/impairment	**(38)**	(32)	**(13)**	(10)
	22	20	**20**	16
Total property, plant and equipment				
At cost	**48,691**	46,000	**45,543**	43,523
Accumulated depreciation	**(25,069)**	(23,109)	**(23,778)**	(22,300)
	23,622	22,891	**21,765**	21,223

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Land and site improvements					
Opening cost		**40**	43	**37**	42
- additions		**-**	4	**-**	3
- disposals		**(5)**	(8)	**(5)**	(8)
- acquisitions through business combinations		**-**	1	**-**	-
Closing cost		**35**	40	**32**	37
Buildings (including leasehold improvements)					
Opening net book value		**430**	393	**366**	376
Opening cost		**822**	733	**722**	689
- additions		**72**	47	**60**	43
- disposals		**(104)**	(16)	**(98)**	(15)
- acquisitions through business combinations		**10**	55	**-**	-
- foreign currency exchange differences		**(4)**	(6)	**-**	-
- other		**26**	9	**22**	5
Closing cost		**822**	822	**706**	722
Opening accumulated depreciation/impairment		**(392)**	(340)	**(356)**	(313)
- disposals		**74**	4	**70**	3
- acquisitions through business combinations		**(1)**	-	**-**	-
- depreciation expense	7	**(62)**	(54)	**(54)**	(47)
- impairment losses		**(6)**	-	**(6)**	-
- foreign currency exchange differences		**3**	3	**-**	-
- other		**(8)**	(5)	**(6)**	1
Closing accumulated depreciation/impairment		**(392)**	(392)	**(352)**	(356)
Closing net book value		**430**	430	**354**	366

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Communication assets (including leasehold improvements) (a)					
Opening net book value		21,676	21,093	20,181	20,095
Opening cost		43,217	40,575	41,127	39,093
- additions		3,681	3,378	3,501	2,732
- disposals		(1,416)	(740)	(1,432)	(740)
- acquisitions through business combinations		421	-	-	-
- foreign currency exchange differences		(105)	(37)	-	-
- other		50	41	26	42
Closing cost		45,848	43,217	43,222	41,127
Opening accumulated depreciation/impairment		(21,541)	(19,482)	(20,946)	(18,998)
- disposals		1,376	584	1,393	588
- acquisitions through business combinations		(265)	-	-	-
- depreciation expense	7	(2,953)	(2,615)	(2,786)	(2,508)
- impairment losses		(37)	(14)	(37)	(14)
- foreign currency exchange differences		41	8	-	-
- other		(19)	(22)	(17)	(14)
Closing accumulated depreciation/impairment		(23,398)	(21,541)	(22,393)	(20,946)
Closing net book value		22,450	21,676	20,829	20,181
Communication assets under finance lease					
Opening net book value		424	499	424	499
Opening and closing cost (b)		858	858	858	858
Opening accumulated depreciation/impairment		(434)	(359)	(434)	(359)
- depreciation expense	7	(67)	(75)	(67)	(75)
Closing accumulated depreciation/impairment		(501)	(434)	(501)	(434)
Closing net book value		357	424	357	424

(a) Includes certain network land and buildings which are essential to the operation of our communication assets.

(b) During fiscal 2006 and fiscal 2005, there were no additions or disposals to this class of asset. As a result, our opening and closing cost has remained unchanged.

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Other plant, equipment and motor vehicles					
Opening net book value		**301**	380	**199**	211
Opening cost		**1,011**	1,335	**753**	1,004
- additions		**124**	114	**34**	52
- disposals		**(111)**	(301)	**(96)**	(295)
- acquisitions through business combinations		**48**	15	**-**	-
- foreign currency exchange differences		**(8)**	(14)	**-**	-
- other		**4**	(138)	**1**	(8)
Closing cost		**1,068**	1,011	**692**	753
Opening accumulated depreciation/impairment		**(710)**	(955)	**(554)**	(793)
- disposals		**98**	287	**85**	281
- acquisitions through business combinations		**(37)**	-	**-**	-
- depreciation expense	7	**(93)**	(123)	**(45)**	(50)
- impairment losses		**(26)**	(3)	**(26)**	(3)
- foreign currency exchange differences		**6**	9	**-**	-
- other		**22**	75	**21**	11
Closing accumulated depreciation/impairment		**(740)**	(710)	**(519)**	(554)
Closing net book value		**328**	301	**173**	199
Equipment under finance lease					
Opening net book value		**20**	11	**16**	10
Opening cost		**52**	48	**26**	20
- additions		**9**	13	**9**	11
- disposals		**-**	(9)	**-**	(5)
- acquisitions through business combinations		**-**	4	**-**	-
- foreign currency exchange differences		**(1)**	-	**-**	-
- other		**-**	(4)	**(2)**	-
Closing cost		**60**	52	**33**	26
Opening accumulated depreciation/impairment		**(32)**	(37)	**(10)**	(10)
- disposals		**-**	3	**-**	-
- depreciation expense	7	**(8)**	(9)	**(6)**	(7)
- other		**2**	11	**3**	7
Closing accumulated depreciation/impairment		**(38)**	(32)	**(13)**	(10)
Closing net book value		**22**	20	**20**	16

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

Work in progress

In fiscal 2006, the Telstra Group has property, plant and equipment under construction amounting to $1,695 million (2005: $1,040 million). In fiscal 2006, the Telstra Entity has property, plant and equipment under construction amounting to $1,596 million (2005: $945 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.

Other

Details of our expenditure and lease commitments in relation to property, plant and equipment are shown in note 26 to these financial statements.

In fiscal 2006, the Telstra Group has property, plant and equipment that was fully depreciated and still in use with a cost of $1,767 million (2005: $2,224 million). In fiscal 2006, the Telstra Entity has property, plant and equipment that was fully depreciated and still in use with a cost of $1,412 million (2005: $1,905 million).

Notes to the Financial Statements (continued)

15. Intangible assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Goodwill	**2,073**	2,037	**16**	16
Internally generated intangible assets				
Software assets developed for internal use	**3,188**	3,622	**2,651**	3,173
Accumulated amortisation	**(1,406)**	(1,652)	**(1,171)**	(1,499)
	1,782	1,970	**1,480**	1,674
Acquired intangible assets				
Mastheads	**447**	447	**-**	-
Patents and trademarks	**34**	34	**20**	20
Accumulated amortisation	**(8)**	(6)	**(11)**	(7)
	26	28	**9**	13
Licences	**833**	793	**267**	267
Accumulated amortisation	**(241)**	(183)	**(132)**	(116)
	592	610	**135**	151
Brandnames	**235**	215	**-**	-
Accumulated amortisation	**(53)**	(42)	**-**	-
	182	173	**-**	-
Customer bases	**846**	749	**70**	70
Accumulated amortisation	**(407)**	(305)	**(64)**	(51)
	439	444	**6**	19
Total acquired intangible assets	**1,686**	1,702	**150**	183
Deferred expenditure				
Deferred expenditure	**1,589**	1,272	**1,841**	1,533
Accumulated amortisation	**(1,007)**	(652)	**(1,022)**	(655)
	582	620	**819**	878
Total intangibles				
At cost	**9,245**	9,169	**4,865**	5,079
Accumulated amortisation	**(3,122)**	(2,840)	**(2,400)**	(2,328)
	6,123	6,329	**2,465**	2,751

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

Movements in intangible assets

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Goodwill					
Opening value		**2,037**	1,790	**16**	16
- acquisitions through business combinations	24	**324**	385	**-**	-
- disposals		**(312)**	-	**-**	-
- foreign currency exchange differences		**27**	(138)	**-**	-
- impairment losses		**(1)**	-	**-**	-
- other		**(2)**	-	**-**	-
Closing value (a)		**2,073**	2,037	**16**	16
Intangibles - internally generated					
Software assets developed for internal use (b)					
Opening net book value		**1,970**	1,882	**1,674**	1,698
Opening cost		**3,622**	3,249	**3,173**	3,005
- additions		**602**	552	**498**	470
- acquisitions through business combinations		**1**	15	**-**	-
- disposals		**(969)**	(310)	**(965)**	(302)
- impairment losses (f)		**(65)**	-	**(64)**	-
- foreign currency exchange differences		**(10)**	-	**-**	-
- other		**7**	116	**9**	-
Closing cost		**3,188**	3,622	**2,651**	3,173
Opening accumulated amortisation		**(1,652)**	(1,367)	**(1,499)**	(1,307)
- amortisation expense (e)	7	**(726)**	(510)	**(629)**	(472)
- disposals		**969**	310	**965**	302
- foreign currency exchange differences		**7**	-	**-**	-
- other		**(4)**	(85)	**(8)**	(22)
Closing accumulated amortisation		**(1,406)**	(1,652)	**(1,171)**	(1,499)
Closing net book value		**1,782**	1,970	**1,480**	1,674
Acquired Intangible assets					
Mastheads					
Opening net book value		**447**	448	**-**	-
Opening cost		**447**	448	**-**	-
- impairment losses		**-**	(1)	**-**	-
Closing cost		**447**	447	**-**	-
Closing net book value (c)		**447**	447	**-**	-

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

Movements in intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Patents and trademarks					
Opening net book value		28	3	13	17
Opening cost		34	7	20	20
- additions		1	-	-	-
- acquisitions through business combinations		-	27	-	-
- other		(1)	-	-	-
Closing cost		34	34	20	20
Opening accumulated amortisation		(6)	(4)	(7)	(3)
- amortisation expense (e)	7	(2)	(2)	(4)	(4)
Closing accumulated amortisation		(8)	(6)	(11)	(7)
Closing net book value		26	28	9	13
Licences					
Opening net book value		610	651	151	169
Opening cost		793	801	267	267
- additions		16	5	2	-
- acquisitions through business combinations		23	5	-	-
- foreign currency exchange differences		-	(18)	-	-
- other		1	-	(2)	-
Closing cost		833	793	267	267
Opening accumulated amortisation		(183)	(150)	(116)	(98)
- amortisation expense (e)	7	(58)	(37)	(18)	(18)
- foreign currency exchange differences		1	4	-	-
- other		(1)	-	2	-
Closing accumulated amortisation		(241)	(183)	(132)	(116)
Closing net book value		592	610	135	151

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

Movements in intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Brandnames					
Opening net book value		**173**	180	**-**	-
Opening cost		**215**	215	**-**	-
- acquisitions through business combinations		**21**	16	**-**	-
- foreign currency exchange differences		**(1)**	(16)	**-**	-
Closing cost		**235**	215	**-**	-
Opening accumulated amortisation		**(42)**	(35)	**-**	-
- amortisation expense (e)	7	**(11)**	(10)	**-**	-
- foreign currency exchange differences		**-**	3	**-**	-
Closing accumulated amortisation		**(53)**	(42)	**-**	-
Closing net book value		**182**	173	**-**	-
Customer bases					
Opening net book value		**444**	353	**19**	34
Opening cost		**749**	593	**70**	70
- additions		**30**	-	**-**	-
- acquisitions through business combinations		**76**	191	**-**	-
- foreign currency exchange differences		**(9)**	(35)	**-**	-
Closing cost		**846**	749	**70**	70
Opening accumulated amortisation		**(305)**	(240)	**(51)**	(36)
- amortisation expense (e)	7	**(98)**	(86)	**(13)**	(15)
- foreign currency exchange differences		**(4)**	21	**-**	-
Closing accumulated amortisation		**(407)**	(305)	**(64)**	(51)
Closing net book value		**439**	444	**6**	19

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

Movements in intangible assets (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Deferred expenditure				
Opening net book value	**620**	636	**878**	593
Opening cost	**1,272**	1,031	**1,533**	988
- additions (d)	**317**	241	**315**	545
- other	**-**	-	**(7)**	-
Closing cost	**1,589**	1,272	**1,841**	1,533
Opening accumulated amortisation	**(652)**	(395)	**(655)**	(395)
- amortisation expense (e)	**(355)**	(257)	**(367)**	(260)
Closing accumulated amortisation	**(1,007)**	(652)	**(1,022)**	(655)
Closing net book value	**582**	620	**819**	878

Details of our expenditure commitments in relation to our intangible assets are shown in note 26 to our financial statements.

(a) We allocate goodwill to our relevant cash generating units (CGU's) for the purposes of impairment testing. Refer to note 25 for further details.

(b) In fiscal 2006, the Telstra Group had software assets under development amounting to $352 million (2005: $362 million). In fiscal 2006, the Telstra Entity had software assets under development amounting to $296 million (2005: $301 million). As these assets were not installed and ready for use there is no amortisation being charged on the amounts.

(c) We do not currently amortise the cost of our mastheads as they have been assessed to have an indefinite useful life. We do not expect there to be a foreseeable limit to the period over which the mastheads are expected to generate net cash inflows and, based on industry experience and current information, it is extremely rare for leading mastheads to become commercially or technically obsolete. We believe we could dispose of the mastheads in the foreseeable future for an amount not less than the current carrying value and that the acquirer could retain the strong market position that the mastheads currently represent.

(d) During fiscal 2005, we entered into an arrangement with our jointly controlled entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement, including committed capital expenditure for the period until 2022.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. The Telstra Entity has recorded the IRU within deferred expenditure. For the Telstra Group, the IRU was deemed to be an extension of our investment in Reach. The IRU has a carrying value of $nil in the consolidated financial statements due to the recognition of equity accounted losses in Reach.

(e) Amortisation expense is included in depreciation and amortisation expense in the income statement, with the exception of items of deferred expenditure which are expensed to the relevant line of the income statement. The majority of the deferred expenditure relates to the deferral of basic access installation costs, which are amortised to goods and services purchased in the income statement.

(f) We have recognised impairment losses relating to project costs that were included in our capitalised software and relate to our software work-in-progress. These projects have subsequently been cancelled and the costs recognised in the income statement as an impairment loss.

Notes to the Financial Statements (continued)

16. Derivative financial assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Current				
Cross currency swap hedge receivable	**20**	4	**20**	4
Forward contract asset	**1**	-	**1**	-
	21	4	**21**	4
Non current				
Cross currency swap hedge receivable	**222**	-	**222**	-
Interest rate swap asset	**169**	-	**169**	-
	391	-	**391**	-

Refer to note 35 for details on the financial risk management of our derivative financial instruments.

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. Accordingly, we have applied previous AGAAP in the comparative information.

Notes to the Financial Statements (continued)

17. Trade and other payables

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Current					
Trade creditors (a)		**738**	649	**586**	480
Accrued expenses		**1,338**	1,044	**1,081**	815
Accrued capital expenditure		**844**	289	**772**	210
Accrued interest		**258**	227	**258**	227
Deferred cash settlement for acquisitions (b)		**123**	316	**-**	-
Other creditors (a)		**269**	282	**171**	219
Amounts owed to controlled entities (other than trade creditors)	33	**-**	-	**197**	5
		3,570	2,807	**3,065**	1,956
Non current					
Deferred cash settlement for acquisitions (b)		**127**	187	**-**	-
Other creditors		**70**	63	**65**	61
		197	250	**65**	61

(a) Trade creditors and other creditors are non interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days from the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

(b) Included in our deferred cash settlement for acquisitions are our remaining obligations for the purchase of the third generation radio access network assets from Hutchison 3G Australia Pty Ltd.

During fiscal 2005, we purchased these assets for an amount of $450 million, payable over two years. We recognised this payable at its present value in our balance sheet of $403 million and are releasing the associated financing cost over the period of the payablein the income statement. For fiscal 2006, this release of finance costs amounted to $19 million (2005: $28 million).

Notes to the Financial Statements (continued)

18. Borrowings

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
Current					
Short term debt					
Bank overdraft (a)		-	14	-	-
Bank loans		111	-	110	-
Bills of exchange and commercial paper (b)		1,457	449	1,457	449
Loans from wholly owned controlled entities	33	-	-	1,408	2,400
		1,568	463	2,975	2,849
Long term debt - current portion					
Telstra bonds (c)		-	516	-	516
Other loans (d)		394	523	394	523
Finance leases	26	7	5	5	4
		401	1,044	399	1,043
		1,969	1,507	3,374	3,892
Non current					
Long term debt					
Telstra bonds (c)		2,613	2,605	2,613	2,605
Other loans (d)		8,748	8,289	8,748	8,289
Finance leases	26	48	47	15	13
		11,409	10,941	11,376	10,907
Total debt payable					
Short term debt					
Bank overdraft (a)		-	14	-	-
Bank loans		111	-	110	-
Bills of exchange and commercial paper (b)		1,457	449	1,457	449
Loans from wholly owned controlled entities	33	-	-	1,408	2,400
		1,568	463	2,975	2,849
Long term debt (including current portion)					
Telstra bonds (c)		2,613	3,121	2,613	3,121
Other loans (d)		9,142	8,812	9,142	8,812
Finance leases	26	55	52	20	17
		11,810	11,985	11,775	11,950
		13,378	12,448	14,750	14,799

Notes to the Financial Statements (continued)

18. Borrowings (continued)

Our long term debt is repayable over years ending 30 June as follows:

	Telstra Group						
Due in the year ending 30 June	**2007**	**2008**	**2009**	**2010**	**2011**	**after 2011**	**Total**
Telstra bonds	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Coupon interest rate							
up to 6.0%	-	-	-	-	-	35	35
up to 8.0%	-	-	500	500	-	1,510	2,510
up to 10.0%	-	-	-	-	-	28	28
up to 12.0%	-	-	-	-	-	44	44
up to 16.0%	-	-	-	-	-	32	32
	-	-	500	500	-	1,649	2,649
Unamortised discount							(36)
							2,613
Other loans (d)	394	1,373	81	815	2,642	3,837	9,142
Unamortised discount							-
							9,142
Finance leases	13	12	10	8	5	52	100
Future finance charges							(45)
							55
Total long term debt payable	407	1,385	591	1,323	2,647	5,538	11,891
Unamortised discount							(81)
							11,810

Assets pledged as security

Our 50% owned pay television joint venture FOXTEL previously entered into a $550 million bank facility arrangement to fund its full digital conversion and launch of new digital services. The use of this facility is subject to certain conditions being met and full repayment is due on 30 September 2008.

As part of this arrangement, our controlled entity Telstra Media Pty Ltd as a FOXTEL partner, and FOXTEL itself, have pledged their respective assets as collateral in favour of the banks. The carrying value of the assets pledged in Telstra Media Pty Ltd as at 30 June 2006 was $nil (2005: $nil). Refer to note 27 for details of an equity contribution deed entered as part of this agreement.

On 31 July 2006, FOXTEL entered into a $600 million syndicated secured term loan facility to fund the refinancing of the above facility. Refer to note 34 for further details.

Our borrowings are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us.

(a) Bank overdraft

As at 30 June 2006, we had a bank overdraft of $nil (2005: $14 million). Our bank overdraft in fiscal 2005 related to a controlled entity. This bank overdraft was unsecured, with interest being charged daily, net of the controlled entity's offsetting position of cash in bank and any outstanding loans.

(b) Bills of exchange and commercial paper

We have issued bills of exchange and commercial paper of $1,457 million (2005: $449 million) to financial institutions with an original maturity of less than 180 days. At 30 June 2006, all $1,457 million (2005: $449 million) of the commercial paper matures in less than three months.

(c) Telstra bonds

Telstra bonds currently on issue relate to wholesale investors and mature up until the year 2020. During fiscal 2006, $508 million (2005: $273 million) of Telstra bonds matured.

Notes to the Financial Statements (continued)

18. Borrowings (continued)

(d) Other loans

Details of our other loans, including currency of borrowing, interest rates and maturity dates, are presented in the table below:

Telstra Group - Other loans details	A$ amount		Interest rates		Maturity dates	
	As at 30 June		Year ended 30 June		As at 30 June	
	2006	2005	**2006**	2005	**2006**	2005
	A$m	A$m	**%**	%		
Australian dollar loans	**245**	247	**5.93**	5.93	**November 2007**	November 2007
US dollar loans	**1,028**	1,306	**5.22 to 6.47**	3.49 to 6.50	**between April 2008 and Dec 2015**	between Nov 2005 and April 2012
Euro eurobond loan	**6,336**	5,893	**3.14 to 6.49**	3.00 to 6.38	**between Dec 2006 and July 2015**	between Dec 2006 and July 2015
Swiss franc eurobond loan	**326**	304	**2.61**	2.50	**April 2013**	April 2013
Japanese yen loans	**472**	333	**0.44 to 2.51**	0.31 to 1.89	**between July 2007 and June 2016**	between July 2007 and Nov 2014
Singapore dollar loans	**84**	78	**3.80**	3.80	**March 2008**	March 2008
New Zealand dollar loans	**164**	183	**7.03 to 7.19**	6.99 to 7.15	**between Nov 2011 and Nov 2014**	between Nov 2011 and Nov 2014
British pound sterling loans	**487**	468	**6.23**	6.13	**August 2014**	August 2014
Total other loans including current portion	**9,142**	8,812				

(e) Financing arrangements

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
We have access to the following lines of credit:				
Credit standby arrangements				
Unsecured committed cash standby facilities which are subject to annual review	**902**	892	**894**	887
Amount of credit unused	**900**	891	**894**	887

We have commercial paper facilities in place with financial institutions under which we may issue up to $14,651 million (2005: $13,842 million). As at 30 June 2006, we had drawn down $1,457 million (2005: $449 million) of these commercial paper facilities. These facilities are not committed or underwritten and we have no guaranteed access to the funds.

Generally, our facilities are available unless we default on any terms applicable under the relevant agreements or become insolvent.

Notes to the Financial Statements (continued)

19. Provisions

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Current				
Employee benefits (a)	**319**	336	**272**	288
Workers' compensation	**32**	32	**31**	31
Provision for restructuring	**81**	-	**81**	-
Provision for redundancies (a)	**158**	-	**155**	-
Other provisions	**147**	53	**140**	37
	737	421	**679**	356
Non current				
Employee benefits (a)	**573**	610	**548**	588
Workers' compensation	**184**	182	**177**	175
Provision for restructuring	**128**	-	**128**	-
Provision for redundancies (a)	**28**	-	**28**	-
Other provisions	**61**	102	**43**	74
	974	894	**924**	837
(a) Aggregate employee benefits and related on-costs liability				
Current provision for employee benefits	**319**	336	**272**	288
Non current provision for employee benefits	**573**	610	**548**	588
Current provision for redundancies	**158**	-	**155**	-
Non current provision for redundancies	**28**	-	**28**	-
Accrued labour and on-costs (i)	**317**	237	**303**	225
	1,395	1,183	**1,306**	1,101

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 17).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount:

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
Weighted average projected increase in salaries, wages and associated on-costs	**4.2%**	4.0%	**4.3%**	4.0%
Weighted average discount rates	**5.4%**	5.4%	**5.4%**	5.4%
Leave taking rates	**13.2%**	13.3%	**13.3%**	13.3%

Notes to the Financial Statements (continued)

19. Provisions (continued)

(b) Information about our provisions, other than provision for employee benefits

Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The timing of these payments may vary, however the average time payments are expected for is 11 years (2005: 12 years).

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation.

Provision for redundancy and restructuring

The provision for redundancy and restructuring relates to our transformation project that was announced on 15 November 2005. A provision has only been raised for those redundancy and restructuring costs where a detailed formal plan has been approved and we have raised a valid expectation in those affected that the plan will be carried out. Only those costs that are not associated with the ongoing activities of the Company have been included. The costs included in the redundancy and restructuring provision are based on current estimates of the likely amounts to be incurred and include:

- an estimate of the termination benefits that affected employees will be entitled to;
- costs associated with shutting down certain networks, platforms and applications;
- property rationalisation and other onerous lease costs; and
- costs of replacing customer equipment in order to meet our current service obligations.

A total provision of $427 million has been raised for redundancy and restructuring for the Telstra Group as at 30 June 2006. This includes $18 million for the additional impairment of inventory and a $14 million allowance for other receivables. Refer to note 7(b) for further details.

The execution of these detailed formal plans, for which a restructuring and redundancy provision has been raised, is expected to be completed by fiscal 2011 for the restructuring provision, and fiscal 2008 for the redundancy provision.

Other

Other provisions include provision for Reach Ltd's committed capital expenditure, provision for restoration costs, and other general provisions.

Notes to the Financial Statements (continued)

19. Provisions (continued)

(c) Movement in provisions, other than employee benefits

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Workers' compensation				
Opening balance	**214**	216	**206**	207
- additional provisions	**24**	22	**23**	22
- amount used	**(32)**	(32)	**(31)**	(31)
- unwinding of discount on liabilities recognised at present value	**11**	11	**11**	11
- effect of any change in the discount rate	**(1)**	(3)	**(1)**	(3)
Closing balance	**216**	214	**208**	206
Restructuring provision				
Opening balance	**-**	3	**-**	3
- additional provisions	**209**	-	**209**	-
- reversal of amounts unused	**-**	(3)	**-**	(3)
Closing balance	**209**	-	**209**	-
Redundancy provision				
Opening balance	**-**	-	**-**	-
- additional provisions	**186**	-	**183**	-
Closing balance	**186**	-	**183**	-
Other				
Opening balance	**155**	46	**111**	24
- additional provisions	**113**	125	**113**	93
- amount used	**(51)**	(12)	**(38)**	(5)
- reversal of amounts unused	**(17)**	(10)	**(16)**	(3)
- unwinding of discount on liabilities recognised at present value	**9**	2	**9**	2
- foreign currency exchange differences	**(2)**	-	**-**	-
- other	**1**	4	**4**	-
Closing balance	**208**	155	**183**	111

Notes to the Financial Statements (continued)

20. Derivative financial liabilities

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Current				
Cross currency swap hedge payable	**6**	11	**6**	11
Forward contract liability	**6**	-	**6**	-
	12	11	**12**	11
Non current				
Cross currency swap hedge payable	**612**	864	**612**	864
Interest rate swap payable	**156**	-	**156**	-
	768	864	**768**	864

Refer to note 35 for details on the financial risk management of our derivative financial instruments.

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. Accordingly, we have applied previous AGAAP in the comparative information.

Notes to the Financial Statements (continued)

21. Share capital

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Contributed equity	**5,793**	5,793	**5,793**	5,793
Share loan to employees	**(130)**	(154)	**(130)**	(154)
Shares held by employee share plan trusts	**(99)**	(113)	**(99)**	(113)
Net services received under employee share plans	**5**	10	**5**	10
	5,569	5,536	**5,569**	5,536

Contributed equity

Our contributed equity represents our authorised fully paid ordinary shares. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends as declared, and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

The movement in the number of our authorised fully paid ordinary shares is:

	Telstra Group	
	Year ended 30 June	
	2006 Number of shares	2005 Number of shares
Opening balance	**12,443,074,357**	12,628,359,026
Shares bought back (i)	**-**	(185,284,669)
Closing balance	**12,443,074,357**	12,443,074,357

(i) On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our capital management program. The ordinary shares were bought back at $4.05 per share, comprising a fully franked dividend component of $2.55 per share and a capital component of $1.50 per share. The Commonwealth of Australia did not participate in the share buy-back.

The shares bought back were subsequently cancelled, reducing the number of fully paid ordinary shares on issue. In total, 1.47% of our total issued ordinary shares, or 3.0% of our non Commonwealth owned ordinary shares, were bought back.

The cost of the share buy-back comprised a purchase consideration of $750 million and associated transaction costs of $6 million.

In accordance with the substance of the buy-back, shareholders' equity decreased as follows:

	Year ended 30 June 2005 $m
Contributed equity	280
Retained profits	476
	756

Share loan to employees

The share loan to employees account represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plans (TESOP 97 and TESOP 99).

Shares held by employee share plan trusts

The shares held by employee share plan trusts account represents the value of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded by Telstra Corporation Limited. As at 30 June 2006 the number of shares totalled 17,931,918 (2005: 20,216,091).

Net services received under employee share plans

The net services received under employee share plans account is used to record the cumulative value of our incentive shares, options, restricted shares, performance rights and deferred shares issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account. These contributions are used by the Trust to purchase Telstra shares on market to underpin the issue of our equity instruments.

Notes to the Financial Statements (continued)

21. Share capital (continued)

Movements in our share capital

	Note	Telstra Group As at 30 June 2006 $m	Telstra Group As at 30 June 2005 $m	Telstra Entity As at 30 June 2006 $m	Telstra Entity As at 30 June 2005 $m
Share capital					
Contributed equity					
Opening balance		**5,793**	6,073	**5,793**	6,073
- share buy-back		**-**	(280)	**-**	(280)
Closing balance		**5,793**	5,793	**5,793**	5,793
Share loan to employees					
Opening balance		**(154)**	(174)	**(154)**	(174)
- amounts repaid on share loans provided to employees		**24**	20	**24**	20
Closing balance		**(130)**	(154)	**(130)**	(154)
Shares held by employee share plan trusts					
Opening balance		**(113)**	(117)	**(113)**	(117)
- additional shares purchased		**(6)**	-	**(6)**	-
- shares issued to employees under employee share plans		**20**	4	**20**	4
Closing balance		**(99)**	(113)	**(99)**	(113)
Net services received under employee share plans					
Opening balance		**10**	4	**10**	4
- share based payments	7	**15**	10	**15**	10
- shares issued to employees under employee share plans		**(20)**	(4)	**(20)**	(4)
Closing balance		**5**	10	**5**	10
		5,569	5,536	**5,569**	5,536

Notes to the Financial Statements (continued)

22. Reserves

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Foreign currency translation reserve	**(210)**	(195)	**-**	-
Cash flow hedging reserve	**14**	-	**16**	-
Consolidation fair value reserve	**32**	38	**-**	-
General reserve	**4**	4	**194**	194
	(160)	(153)	**210**	194

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the conversion of the financial statements into Australian dollars.

This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in jointly controlled entities and associated entities. The foreign currency translation reserve applicable to jointly controlled and associated entities is shown in note 30.

Cash flow hedging reserve

The cash flow hedging reserve represents, where a hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument until such time as the hedged item affects the income statement. At this time the gains or losses are transferred to the income statement.

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. Accordingly, we have applied previous AGAAP in the comparative information.

Consolidation fair value reserve

The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

General reserve

The general reserve represents other items we have taken directly to equity.

Notes to the Financial Statements (continued)

22. Reserves (continued)

Movements in our reserves

	Note	Telstra Group As at 30 June 2006 $m	Telstra Group As at 30 June 2005 $m	Telstra Entity As at 30 June 2006 $m	Telstra Entity As at 30 June 2005 $m
Reserves					
Foreign currency translation reserve					
Opening balance		**(195)**	-	**-**	-
- reserves recognised on equity accounting our interest in jointly controlled and associated entities		**1**	(2)	**-**	-
- adjustment on translation of financial statements of non-Australian controlled entities		**(36)**	(193)	**-**	-
- transfer of foreign currency translation reserve on sale of jointly controlled entity		**1**	-	**-**	-
- reduction on dilution of ownership of Telstra CSL Limited	24	**19**	-	**-**	-
Closing balance		**(210)**	(195)	**-**	-
Cash flow hedging reserve					
Opening balance		**-**	-	**-**	-
- adjustment to opening balance on adoption of new accounting standard (i)		**79**	-	**82**	-
Adjusted opening balance		**79**	-	**82**	-
- net hedging gains recognised directly in equity		**327**	-	**327**	-
- net hedging gains removed from equity and included in profit for the year		**(420)**	-	**(421)**	-
- income tax on cash flow hedging reserve		**28**	-	**28**	-
Closing balance		**14**	-	**16**	-
Consolidation fair value reserve					
Opening balance		**38**	44	**-**	-
- transfers to retained profits	23	**(6)**	(6)	**-**	-
Closing balance		**32**	38	**-**	-
General reserve					
Opening balance		**4**	5	**194**	194
- reserves recognised on equity accounting our interest in jointly controlled and associated entities		**-**	5	**-**	-
- transfer of reserve on sale of associates		**-**	(6)	**-**	-
Closing balance		**4**	4	**194**	194
		(160)	(153)	**210**	194

(i) Adjustment on adoption of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" from 1 July 2005. Refer to note 36 for further details.

Notes to the Financial Statements (continued)

23. Retained profits and minority interests

	Note	Telstra Group As at 30 June 2006 $m	Telstra Group As at 30 June 2005 $m	Telstra Entity As at 30 June 2006 $m	Telstra Entity As at 30 June 2005 $m
Retained profits					
Opening balance		**8,273**	8,618	**7,413**	7,558
- adjustment to opening balance on adoption of new accounting standard (i)		**(5)**	-	**(5)**	-
Adjusted opening balance		**8,268**	8,618	**7,408**	7,558
- profit for the year		**3,181**	4,309	**3,237**	4,516
- actuarial gain/(loss) on our defined benefit plans		**958**	(90)	**945**	(85)
- income tax on our actuarial gain on our defined benefit plans		**(284)**	24	**(284)**	24
- dividends paid	4	**(4,970)**	(4,124)	**(4,970)**	(4,124)
- share buy-back	21	**-**	(476)	**-**	(476)
- transfers from consolidation fair value reserve	22	**6**	6	**-**	-
- transfer of reserve on sale of associates		**-**	6	**-**	-
- dilution gain recognised on CSL New World Mobility Group merger (ii)	24	**18**	-	**-**	-
Closing balance		**7,177**	8,273	**6,336**	7,413
Minority interest					
Opening balance		**2**	2	**-**	-
- increase in minority interests due to acquisitions		**244**	-	**-**	-
Closing balance		**246**	2	**-**	-

(i) Adjustment on adoption of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" from 1 July 2005. Refer to note 36 for further details.

(ii) Dilution gain represents net gain recognised on the merger of the Telstra CSL Group and New World Mobility Group. Refer to note 24 for details.

Notes to the Financial Statements (continued)

24. Notes to the statement of cash flows

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2006	2006	2005	2006	2005
	Note	$m	US$m	$m	$m	$m
(a) Reconciliation of profit to net cash provided by operating activities						
Profit for the year		**3,181**	**2,362**	4,309	**3,237**	4,516
Add/(subtract) the following transactions						
Depreciation and amortisation	7	**4,087**	**3,034**	3,529	**3,657**	3,206
Finance income	6	**(66)**	**(49)**	(83)	**(63)**	(101)
Finance costs	7	**1,002**	**744**	963	**985**	943
Dividend revenue	6	**-**	**-**	-	**(560)**	(224)
Share based payments	7	**15**	**11**	10	**15**	10
Defined benefit expense	7	**185**	**137**	203	**182**	201
Net gain on disposal of property, plant and equipment	6	**(23)**	**(17)**	(9)	**(20)**	(10)
Net gain on disposal of controlled entities	6	**(4)**	**(3)**	-	**-**	-
Net gain on disposal of other investments	6	**(58)**	**(43)**	(79)	**(59)**	(85)
Share of net (gain)/loss from jointly controlled and associated entities	30	**(5)**	**(4)**	94	**-**	-
Impairment losses (excluding inventories, trade and other receivables)	7	**137**	**102**	29	**760**	519
Reversal of impairment losses (excluding trade and other receivables)		**-**	**-**	-	**(15)**	(349)
Decrease in non cash receivable from related entity		**-**	**-**	-	**-**	(361)
Foreign exchange differences		**28**	**21**	(25)	**(46)**	4
Other		**4**	**3**	(52)	**9**	(20)
Movements in operating assets and liabilities (net of acquisitions of controlled entity balances)						
(Increase)/decrease in trade and other receivables		**(140)**	**(104)**	43	**(204)**	62
(Increase)/decrease in inventories		**10**	**7**	9	**14**	7
(Increase)/decrease in prepayments and other assets		**30**	**22**	(23)	**20**	(26)
Increase/(decrease) in trade and other payables		**243**	**180**	(8)	**517**	25
Increase/(decrease) in revenue received in advance		**55**	**41**	(13)	**23**	10
Increase/(decrease) in net taxes payable		**(502)**	**(373)**	32	**(537)**	193
Increase/(decrease) in provisions		**383**	**285**	31	**396**	32
Net cash provided by operating activities		**8,562**	**6,356**	8,960	**8,311**	8,552
(b) Reconciliation of cash balances						
Cash at the end of the year as shown in the statement of cash flows agrees to the net amount of the following items in the notes to the financial statements:						
Cash and cash equivalents	10	**689**	**511**	1,548	**474**	1,368
Bank overdraft	18	**-**	**-**	(14)	**-**	-
		689	**511**	1,534	**474**	1,368

Notes to the Financial Statements (continued)

24. Notes to the statement of cash flows (continued)

(c) Goods and Services Tax (GST)

Our receipts from trade and other receivables includes estimated GST of $2,223 million (2005: $2,121 million) collected by us as agent for the ATO. Our payments of accounts payable and to employees include estimated GST payments made by us for goods and services obtained in undertaking both operating and investing activities. GST paid associated with operating activities amounted to $941 million (2005: $784 million) and GST paid relating to investing activities amounted to $159 million (2005: $243 million).

(d) Significant financing and investing activities that involve components of non cash

Acquisition of 3G assets

During fiscal 2005, we acquired a 50% interest in Hutchison 3G Australia Pty Ltd's existing third generation (3G) radio access network amounting to $403 million at acquisition date. As at 30 June 2006, we have paid an additional $312 million (2005: $22 million) to our joint venture partner for the acquisition of these assets as the purchase price is being paid in instalments. The balance outstanding as at 30 June 2006 was settled on 3 July 2006 and is reflected in our trade and other payables. Refer to note 17 for further information.

(e) Acquisitions

CSL New World Mobility Group

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 $44 million in cash. The share issue diluted Telstra's ownership in the merged group to 76.4%. The effect on the Telstra Group of the merger is detailed below:

	New World Mobility Group	
	2006 $m	2006 $m
Consideration for acquisition		
Fair value of Telstra CSL shares issued	577	
Cash received on acquisition	(44)	
Total purchase consideration	533	
	Fair value	Carrying value
Assets/(liabilities) at acquisition date		
Trade and other receivables	21	21
Inventories	4	4
Property, plant and equipment	174	174
Intangible assets	109	-
Other assets	14	14
Deferred tax assets	21	29
Trade and other payables	(97)	(75)
Net identifiable assets acquired	246	167
Goodwill on acquisition	287	
	533	
Profit from acquisition date until 30 June 2006	1	

Notes to the Financial Statements (continued)

24. Notes to the statement of cash flows (continued)

(e) Acquisitions (continued)

CSL New World Mobility Group (continued)

The net impact of the merger on the Telstra Group results at the date of merger are detailed below.

	Year ended 30 June 2006 $m
Net increase in Telstra Group net assets	
Inflow of cash on acquisition (net of transaction costs)	42
New World Mobility Group net identifiable assets acquired	246
Goodwill on acquisition of New World Mobility Group	287
Reduction of Telstra CSL goodwill on dilution	(308)
	267
Represented by the following movements in equity	
Minority interest recognised	(230)
Reduction in foreign currency translation reserve on dilution	(19)
Dilution gain recognised as a result of merger	18

The CSL New World Mobility Group is a provider of mobile telecommunication products and services which operates primarily in Hong Kong. Refer to note 29 for further details on the acquisition.

Other fiscal 2006 acquisitions

During fiscal 2006, we have also acquired several other entities. These entities are not individually significant and have been aggregated as 'Other' in the below table.

	Other 2006 $m	2006 $m
Consideration for acquisitions		
Cash consideration for acquisitions	31	
Costs of acquisitions	2	
Total purchase consideration	33	
Payments of deferred consideration for prior years' acquisition	10	
Outflow of cash on acquisition	43	
	Fair value	Carrying value
Assets/(liabilities) at acquisition date		
Trade and other receivables	5	5
Property, plant and equipment	2	2
Intangible assets - goodwill	26	26
Intangible assets - other	12	-
Provisions	(3)	(3)
Deferred tax liabilities	(4)	-
Other liabilities	-	(2)
Net assets	38	28
Adjustment to reflect minority interests acquired	(14)	
Adjustment upon increase in ownership interest from associated entity to controlled	(2)	
Goodwill on acquisition	11	
	33	
Profit from acquisition date until 30 June 2006	1	

Our other acquisitions include:

- 100% of the issued share capital of the Converged Networks Group;
- additional 25% interest in the issued share capital of Invizage Pty Ltd giving us 100% ownership of this entity;
- additional 40% interest in the issued share capital of Enhanced Processing Technologies Inc giving us 100% ownership of this entity; and
- additional 24.7% interest in the issued share capital of Adstream (Aust) Pty Ltd and its controlled entities giving us a controlling 58% interest.

These entities are not individually significant and have been aggregated as 'Other'. Refer to note 29 for further details on our acquisitions.

Notes to the Financial Statements (continued)

24. Notes to the statement of cash flows (continued)

(e) Acquisitions (continued)

Fiscal 2005 acquisitions

During fiscal 2005, we completed the following significant acquisitions:

- 100% of the issued share capital of KAZ Group Limited and its controlled entities (KAZ Group); and
- 100% of the issued share capital of PSINet UK Limited and its controlled entities (PSINet Group).

We also acquired several other entities during fiscal 2005. These entities were not individually significant and have been aggregated as 'Other' in the below table.

	KAZ Group (i)		PSINet Group (ii)		Other (iii)		Total	
	$m	$m	$m	$m	$m	$m	$m	$m
Consideration for acquisitions								
Cash consideration for acquisition	333		108		124		565	
Deferred cash consideration	-		13		-		13	
Costs of acquisition	7		3		3		13	
Total purchase consideration	340		124		127		591	
Cash balances acquired	(4)		(6)		(3)		(13)	
Payments of deferred consideration for prior years' acquisition	-		-		8		8	
Consideration deferred	-		(13)		-		(13)	
Outflow of cash on acquisition	336		105		132		573	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Assets/(liabilities) at acquisition date								
Cash and cash equivalents	4	4	6	6	2	2	12	12
Trade and other receivables	75	75	18	18	24	24	117	117
Inventories	6	6	-	-	11	11	17	17
Property, plant and equipment	22	21	47	47	6	6	75	74
Intangible assets	123	15	42	-	89	14	254	29
Other assets	3	3	5	5	5	5	13	13
Deferred tax assets	13	13	1	1	7	7	21	21
Trade and other payables	(54)	(54)	(23)	(23)	(22)	(22)	(99)	(99)
Provisions	(52)	(52)	-	-	(5)	(5)	(57)	(57)
Borrowings	(3)	(3)	(35)	(35)	(10)	(10)	(48)	(48)
Deferred tax liabilities	(33)	-	(14)	-	(17)	(1)	(64)	(1)
Current tax liabilities	3	3	-	-	(1)	(1)	2	2
Other liabilities	(5)	(5)	(18)	(18)	(13)	(13)	(36)	(36)
Net assets	102	26	29	1	76	17	207	44
Adjustment upon increase in ownership interest from associated entity to controlled entity	-		-		(1)		(1)	
Goodwill on acquisition	238		95		52		385	
	340		124		127		591	
Profit/(loss) from acquisition date until 30 June 2005	11		8		(3)		16	

Notes to the Financial Statements (continued)

24. Notes to the statement of cash flows (continued)

(e) Acquisitions (continued)

(i) The KAZ Group is a provider of business process outsourcing, systems integration, consulting, applications development and information technology management services. It operates primarily in Australia, but also conducts business in the United States and Asia.

(ii) The PSINet Group is a provider of e-business infrastructure solutions and corporate internet protocol based communication services.

(iii) During fiscal 2005, we acquired the following entities:

- 100% of the issued share capital of ESA Holding Pty Ltd and its controlled entity Damovo (Australia) Pty Ltd, and of Damovo HK Limited (now known as Telstra Business Systems);
- 100% of the issued share capital of Universal Publishers Pty Ltd;
- 100% of the issued share capital of Chief Entertainment Pty Ltd;
- 100% of the issued share capital of Sytec Resources and its controlled entities; and
- additional 10% interest in the issued share capital of 1300 Australia Pty Ltd giving us a 60% controlling interest.

These entities are not individually significant and have been aggregated as 'Other' per the previous table.

Other information relating to our acquisitions

We have recognised goodwill of $324 million (2005: $385 million) on acquisition of our controlled entities. The following factors contributed to the recognition of goodwill:

- forecast revenues and profitability of the acquired entities;
- cost synergies expected by combining our current operations with the acquired entities; and
- strategic benefits to the operations of the Telstra Group.

We have identified and measured any significant intangible assets separately from goodwill on acquisition of our controlled entities.

If our acquisitions during fiscal 2006 had occurred on 1 July 2005, our adjusted consolidated income and consolidated profit for the year ended 30 June 2005 for the Telstra Group would have been $23,350 million and $3,174 million respectively.

If our acquisitions during fiscal 2005 had occurred on 1 July 2004, our adjusted consolidated income and consolidated profit for the year ended 30 June 2005 for the Telstra Group would have been $22,515 million and $4,303 million respectively.

Notes to the Financial Statements (continued)

25. Impairment

Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGU's). Our CGU's are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of our goodwill and intangible assets with an indefinite useful life are allocated across the following CGU's:

	Goodwill		Intangibles with indefinite useful lives	
	As at 30 June		As at 30 June	
CGU's	**2006 $m**	**2005 $m**	**2006 $m**	**2005 $m**
Telstra CSL Group	**970**	1,228	**-**	-
New World Mobility Group	**276**	-	**-**	-
Kaz Group	**270**	274	**-**	-
TelstraClear Group	**137**	152	**-**	-
United Kingdom Group	**113**	110	**-**	-
Sensis Group (a)	**36**	36	**-**	-
Trading Post Group	**179**	178	**447**	447
Universal Publishers	**15**	15	**8**	8
Adstream Group	**30**	-	**-**	-
Telstra Business Systems	**30**	26	**-**	-
Other	**17**	18	**8**	7
	2,073	2,037	**463**	462

(a) Our assessment of the Sensis CGU excludes the Trading Post Group, Universal Publishers and the Adstream Group that form part of the Sensis reportable segment.

In addition to the above CGU's, we have two further significant CGU's that are assessed for impairment. These two CGUs are:

- the Telstra Entity CGU, excluding the HFC network; and
- the CGU comprising the HFC network.

The Telstra Entity CGU consists of our ubiquitous telecommunications infrastructure network in Australia, excluding the HFC network that we consider not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network are considered to be working together to generate our net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

Notes to the Financial Statements (continued)

25. Impairment (continued)

Impairment testing

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Our assumptions for determining the recoverable amount of each CGU are based on past experience and our expectations for the future. Our cash flow projections are based on five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite life intangible assets has been allocated:

	Discount rate (b)		Terminal value growth rate (c)	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	%	%	**%**	%
Telstra CSL Group	**11.1**	14.5	**2.0**	5.0
New World Mobility Group	**12.5**	-	**2.0**	-
Kaz Group	**16.6**	16.7	**3.0**	3.0
TelstraClear Group	**18.0**	18.0	**3.0**	3.0
United Kingdom Group	**14.9**	15.0	**3.0**	3.0
Sensis Group (a)	**13.7**	13.7	**3.0**	3.0
Trading Post Group	**15.3**	14.3	**2.5**	2.5
Universal Publishers	**14.3**	14.3	**2.5**	2.5
Adstream Group	**18.6**	-	**2.5**	-
Telstra Business Systems	**15.0**	17.1	**2.5**	2.5

(a) Our assessment of the Sensis CGU excludes the Trading Post Group, Universal Publishers and the Adstream Group that form part of the Sensis reportable segment.

(b) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted, discount rate which was adjusted for specific risks relating to the CGU and the countries in which they operate.

(c) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGU's long term performance in their respective markets.

Notes to the Financial Statements (continued)

26.Expenditure commitments

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
(a) Capital expenditure commitments				
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:				
Property plant and equipment commitments				
Within 1 year	**665**	529	**634**	482
Within 1-2 years	**62**	15	**60**	15
Within 2-3 years	**32**	-	**32**	-
Within 3-4 years	**9**	-	**9**	-
Within 4-5 years	**6**	-	**6**	-
After 5 years	**2**	-	**2**	-
	776	544	**743**	497
Commitments relating to our intangible assets				
Within 1 year	**159**	38	**124**	-
Within 1-2 years	**130**	26	**105**	-
Within 2-3 years	**16**	-	**16**	-
	305	64	**245**	-
(b) Operating lease commitments				
Future lease payments for non-cancellable operating leases not recorded in the financial statements:				
Within 1 year	**424**	380	**260**	232
Within 1-2 years	**290**	260	**170**	154
Within 2-3 years	**201**	209	**108**	117
Within 3-4 years	**139**	149	**60**	64
Within 4-5 years	**118**	128	**47**	49
After 5 years	**358**	397	**152**	154
	1,530	1,523	**797**	770

In addition, in fiscal 2006 the Telstra Group had total future commitments under cancellable operating leases of $356 million (2005: $343 million). In fiscal 2006, the Telstra Entity has total future commitments under cancellable operating leases of $354 million (2005: $338 million).

Description of our operating leases

We have operating leases for the following types of assets:
- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers, and mechanical aids; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The average lease term is:
- 7 years for land and buildings;
- 2 years for motor vehicles, 4 years for light commercial vehicles and 7 to 12 years for trucks and mechanical aids; and
- 3 years for personal computers and related equipment.

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of $59 million (2005: $75 million) for the Telstra Group and $43 million (2005: $54 million) for the Telstra Entity. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 5%, or increases subject to the consumer price index. We do not have any significant purchase options.

Contingent rental payments exist for motor vehicles and are not significant compared with total rental payments made. These are based on unfair wear and tear, excess kilometres travelled, additional fittings and no financial loss to be suffered by the leasing company from changes to the original agreements. Our motor vehicles and related equipment must also remain in Australia.

A number of our operating leases are considered onerous due to our transformation project and as such, have been provided for in our financial statements. Refer to note 19 for details.

Notes to the Financial Statements (continued)

26. Expenditure commitments (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2006	2005	2006	2005
	Note	$m	$m	$m	$m
(c) Finance lease commitments					
Within 1 year		**13**	12	**7**	5
Within 1-2 years		**12**	10	**6**	5
Within 2-3 years		**10**	10	**6**	5
Within 3-4 years		**8**	8	**3**	5
Within 4-5 years		**5**	5	**1**	1
After 5 years		**52**	54	**-**	-
Total minimum lease payments		**100**	99	**23**	21
Future finance charges on finance leases		**(45)**	(47)	**(3)**	(4)
Present value of net future minimum lease payments		**55**	52	**20**	17
Recorded as current borrowings	18	**7**	5	**5**	4
Recorded as non current borrowings	18	**48**	47	**15**	13
Total finance lease liabilities	18	**55**	52	**20**	17

Description of our finance leases

We have finance leases for the following types of assets:
- property leases in our controlled entity, Telstra (PSINet) Limited;
- computer mainframes, computer processing equipment and other related equipment.

The average lease term is:
- 24 years for the property leases with a remaining weighted average life of 17 years; and
- 5 years for computer mainframe and associated equipment.

Interest rates for our finance leases are:
- property leases interest rate of 10.5%; and
- computer mainframe, computer processing equipment and associated equipment weighted average interest rate of 7.6%.

In addition to the above finance lease commitments, we previously entered into US finance leases for communications exchange equipment with various entities denominated in US dollars. We have prepaid all lease rentals due under the terms of these leases and have no additional payment obligations.

These entities lease the communications equipment from the ultimate lessor and then sublease the equipment to us. We have guaranteed that the lease payments will be paid by these entities to the ultimate lessor as scheduled over the lease terms (refer to note 27 for further information).

We hold an early buyout option that we could exercise in fiscal 2011 and fiscal 2013, otherwise the relevant lease period ends during fiscal 2015 and fiscal 2016. Refer to note 14 for further details on communication assets and equipment that are held under finance lease.

Notes to the Financial Statements (continued)

26. Expenditure commitments (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
(d) Other commitments				
Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are:				
Within 1 year	**481**	600	**317**	411
Within 1-2 years	**236**	301	**118**	127
Within 2-3 years	**176**	213	**79**	64
Within 3-4 years	**215**	160	**46**	40
Within 4-5 years	**111**	111	**16**	18
After 5 years	**1,162**	1,195	**5**	6
	2,381	2,580	**581**	666
Our other expenditure commitments include contracts for printing, engineering and operational support services, information technology services and building maintenance. In addition, other commitments also include commitments relating to our investment in FOXTEL.				
Commitments relating to our investment in FOXTEL (i):				
Within 1 year	**144**	154	**-**	-
Within 1-2 years	**113**	154	**-**	-
Within 2-3 years	**93**	128	**-**	-
Within 3-4 years	**95**	103	**-**	-
Within 4-5 years	**92**	93	**-**	-
After 5 years	**1,140**	1,189	**-**	-
	1,677	1,821	**-**	-

(i) Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately $3,354 million (2005: $3,642 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation/reduction formulas contained in the agreements, as well as foreign currency movements. In addition to our MSG, FOXTEL has other commitments including obligations for satellite transponder costs and digital set top box units.

Notes to the Financial Statements (continued)

27. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2006. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

Telstra Entity

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2006, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims are the following litigation cases:

(a) In November 2002, Seven Network Limited and C7 Pty Limited ('Seven') commenced litigation against us and various other parties ('the respondents') in relation to the contracts and arrangements between us and some of those other parties relating to the right to broadcast Australian Football League and National Rugby League, the contract between FOXTEL and us for the provision of HFC cable services (the Broadband Co-operation Agreement) and other matters.

Seven seeks damages and other relief, including that some of these contracts and arrangements are void. Seven also seeks orders which would, in effect, require a significant restructure of the subscription television/sports rights markets in Australia. Expert reports filed by Seven were at one time used to suggest that Seven sought total damages of around $1.1 billion. However, some significant components of this expert evidence have since been ruled inadmissible by the trial judge and many of the facts on which Seven's loss claim is based are contested. In addition to denying liability at all, the respondents have filed expert reports to the effect that, even if liability were found to exist, damages should be assessed at a very significantly lesser amount. If Seven obtained any order damages or for legal costs affecting Telstra, the liability arising from that order may subsequently be apportioned between the relevant respondents, with Telstra bearing only a portion of the total liability.

The matter is proceeding before the courts, with final oral submissions scheduled to commence in September 2006. In light of the progress of this case to date, Telstra considers that it is unlikely to have any material effect on our overall business or financial position.

(b) In January 2006, a shareholder commenced a representative proceeding in the Federal Court against Telstra. The statement of claim alleges that Telstra breached the Corporations Act and the Australian Stock Exchange (ASX) Listing Rules by failing to disclose:

- that Telstra's senior management had formed an opinion that there had been past deficiencies in operating expenditure and capital expenditure on telecommunications infrastructure;
- that Telstra had forecast a long term decline in PSTN revenues; and
- that Telstra had communicated these matters to the Government.

The claim seeks orders for compensation for the class of shareholders who bought shares between the time that these matters became known to Telstra and the time at which they were disclosed to the market. The proceeding is at an early stage and is unlikely to have any material effect on our overall business or financial position. Telstra will vigorously defend the claim.

(c) In December 2005, we increased our prices for line access provided to our competitors to prices closer to our average costs of providing that access. The ACCC appears to allege that these increases left insufficient margin for our competitors in respect of a "lower spend" segment of the retail market. The ACCC somehow considers that our conduct has or is likely to have the effect of substantially lessening competition across the retail market and therefore that we are in breach of the competition rule. On 12 April 2006, the ACCC issued a competition notice against us to this effect.

The ACCC has yet to commence enforcement proceedings against us but the maximum potential penalties which had accrued as at 30 June 2006 exceeded $200 million and are accruing at $3 million per day. 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 our costs. Telstra will vigorously defend the Optus proceedings and any enforcement proceedings which may be brought by the ACCC.

Telstra has challenged the validity of the ACCC's decision to issue the competition notice (and the preceding consultation notice) in the Federal Court on administrative law grounds. Amongst other things, we allege that the competition notice (and the preceding consultation notice) should be set aside for uncertainty and that the ACCC did not accord us procedural fairness by failing to properly consult with us prior to the issue of the competition notice. The ACCC argues that it does not owe us any duty of procedural fairness or natural justice when issuing competition notices.

Notes to the Financial Statements (continued)

27. Contingent liabilities and contingent assets (continued)

Telstra Entity (continued)

Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity as follows:

- Indemnities to financial institutions to support bank guarantees to the value of $347 million (2005: $329 million) in respect of the performance of contracts.
- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was $311 million (2005: $282 million).
- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $150 million (2005: $69 million) and a requirement that the entity remains our controlled entity.
- Guarantees of the performance of jointly controlled entities under contractual agreements to a maximum amount of $69 million (2005: $126 million).
- Guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of the finance leases. The lease payments over the remaining expected term of the leases amount to $843 million (US$626 million) (2005: $850 million (US$650 million)). We hold an early buyout option that we could exercise in fiscal 2011 and fiscal 2013, otherwise the relevant lease period ends during fiscal 2015 and fiscal 2016. Refer to note 26 for further details on the above finance leases.
- During fiscal 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. We issued a guarantee of $68 million on behalf of IBMGSA during fiscal 2000. During fiscal 2004, we sold our shareholding in this entity. The $68 million guarantee is provided to support service contracts entered into by IBMGSA and third parties, and was made with IBMGSA bankers, or directly to IBMGSA customers. As at 30 June 2006, this guarantee has still been provided and $142 million (2005: $142 million) of the $210 million guarantee facility remains unused.

  Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

Controlled entities

Indemnities provided by our controlled entities

In fiscal 2006 and fiscal 2005, our controlled entities had no significant outstanding indemnities in respect of obligations to financial institutions and corporations.

Other

FOXTEL minimum subscriber guarantees and other obligations

The Telstra Entity and its partners, News Corporation Limited and Publishing and Broadcasting Limited, and Telstra Media Pty Ltd and its partner, Sky Cable Pty Ltd, have entered into agreements relating to pay television programming with various parties and other miscellaneous contracts. Our commitments under these agreements relate mainly to minimum subscriber guarantees (MSG) (refer to note 26 for details of MSG commitments).

As we are subject to joint and several liability in relation to certain agreements entered into by the FOXTEL partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from FOXTEL's MSG and other agreements are $1,531 million (2005: $1,689 million).

FOXTEL Equity Contribution Deed (ECD)

FOXTEL previously entered into a $550 million bank facility arrangement to fund its full digital conversion and launch of new digital services. As part of this arrangement, we and FOXTEL's other ultimate shareholders, News Corporation Limited and Publishing and Broadcasting Limited, entered into an ECD. Under the ECD, FOXTEL is required to call on a maximum of $200 million in equity contributions in certain specified circumstances as necessary to avoid default of a financial covenant. These equity contributions are based on ownership interests and, as a result, our maximum contingent liability is $100 million.

We have no joint or several liability relating to our partners' contributions under the ECD. On 31 July 2006, FOXTEL entered into a $600 million syndicated secured term loan facility. As a result, the ECD has subsequently been terminated. Refer to note 34 for further details.

Notes to the Financial Statements (continued)

27. Contingent liabilities and contingent assets (continued)

Other (continued)

3GIS Partnership

During fiscal 2005, Telstra OnAir Holdings Pty Ltd and its partner, Hutchison 3G Australia Pty Ltd entered into agreements relating to the occupation of premises to provide 3GSM radio access network services.

As we are subject to joint and several liability in relation to agreements entered into by the 3GIS partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are $154 million (2005: $132 million).

Reach working capital facility

We, together with our co-shareholder PCCW Limited (PCCW), previously bought a loan facility owed to a banking syndicate by Reach Finance Ltd, a subsidiary of our 50% owned joint venture Reach Ltd (Reach). As part of this arrangement, the shareholders also agreed to provide a US$50 million working capital facility to Reach. Under the facility Reach is entitled to request from Telstra a maximum of US$25 million to assist in meeting ongoing operational requirements. Drawdowns under this facility must be repaid at the end of each interest period as agreed between the parties and the loan must be fully repaid by 31 December 2007. The applicable interest rate is LIBOR plus 2.5%. As at 30 June 2006, Reach had not made any drawdown under this facility.

We have no joint or several liability relating to PCCW's US$25 million share of the working capital facility.

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 29. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 29 for further information.

Notes to the Financial Statements (continued)

28. Post employment benefits

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our defined benefit obligations for our defined benefit plans are calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of our plans are set out below.

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff who were previously members of the Commonwealth Superannuation Scheme (CSS) transferred into Telstra Super. The Commonwealth has responsibility for past, present and future liabilities in respect of former and current Telstra employees who remain in the CSS. As a result, we have no current ongoing obligations for these CSS members, other than associated administration fees.

The Telstra Entity and some of our Australian controlled entities participate in Telstra Super. Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super are closed to new members.

Our defined benefit divisions provide benefits based on years of service and final average salary. Post employment benefits do not include payments for medical costs.

The funding policy adopted in respect of the defined benefit divisions is directed at ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. The benefits received by members of each defined benefit division take into account factors such as the employee's length of service, final average salary, employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

HK CSL Retirement Scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance (ORSO) and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

Actuarial investigations are undertaken annually for this scheme.

Other defined contribution schemes

A number of our subsidiaries also participate in defined contribution schemes which receive employer and employee contributions based on a percentage of the employees salaries. Telstra Group made contribution to these schemes of $32 million for fiscal 2006.

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

We use the following measurement dates for our defined benefit plans:

	Measurement date
Telstra Super	30 June
HK CSL Retirement Scheme	31 May

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations as at the reporting date is determined by our actuary. The details of the defined benefit divisions are set out below:

(a) Net defined benefit plan asset

Our net defined benefit plan asset recognised in the balance sheet is determined as follows:

	Telstra Group As at 30 June		Telstra Entity As at 30 June	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Fair value of defined benefit plan assets	**4,553**	4,518	**4,459**	4,439
Present value of the defined benefit obligation	**3,675**	4,308	**3,605**	4,234
Net defined benefit asset before adjustment for contributions tax	**878**	210	**853**	205
Adjustment for contributions tax	**151**	37	**151**	37
Net defined benefit asset in the balance sheet at 30 June (i)	**1,029**	247	**1,004**	242
Experience adjustments:				
Aggregate actuarial gain included in defined benefit plan assets	**480**	155	**474**	152
Aggregate actuarial gain/(loss) included in the defined benefit obligation	**340**	(233)	**329**	(225)
Net actuarial gain/(loss)	**820**	(78)	**803**	(73)

(i) At 30 June the fair value of defined benefit plan assets exceeds the present value of defined benefit obligations resulting in a net surplus. We recognise the net surplus as an asset as we have the ability to control this surplus to generate future funds that are available to us in the form of reductions in future contributions, or as a cash refund. The asset recognised does not exceed the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(b) Amounts recognised in the income statement and in equity

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
The components of defined benefit plan expense recognised in the income statement are as follows:				
Current service cost	**227**	214	**220**	210
Interest cost	**205**	205	**202**	202
Expected return on plan assets	**(322)**	(317)	**(316)**	(312)
Member contributions	**(40)**	(20)	**(39)**	(20)
Curtailment gain	**(17)**	-	**(17)**	-
Plan expenses after tax	**15**	16	**15**	16
Notional transfer of funds for defined contribution benefits	**89**	75	**89**	75
Adjustment for contributions tax	**28**	30	**28**	30
	185	203	**182**	201
The movements in our defined benefit plan asset recognised directly in equity in the statement of recognised income and expense are as follows:				
Actuarial (gains)/losses on our defined benefit plans	**(820)**	78	**(803)**	73
Adjustment to contributions tax	**(142)**	12	**(142)**	12
	(962)	90	**(945)**	85

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(c) Plan assets

Our weighted average asset allocation by major asset category as a percentage of the fair value of total plan assets as at 30 June are as follows:

	Telstra Super				HK CSL Retirement Scheme			
	As at 30 June				As at 30 June			
	2006		2005		**2006**		2005	
	Target %	**Actual** %	Target %	Actual %	**Target** %	**Actual** %	Target %	Actual %
Asset allocations								
Equity instruments	**68**	**69**	67	62	**60**	**61**	60	64
Debt instruments	**12**	**10**	10	14	**35**	**32**	35	30
Property	**15**	**16**	18	13	**-**	**-**	-	-
Cash	**5**	**5**	5	11	**5**	**7**	5	6
	100	**100**	100	100	**100**	**100**	100	100

Our defined benefit plan's investment strategy is to control the level of risk by investing in a broad range of quality investments, and using a range of Australian and International investment managers who specialise in cash, fixed interest, shares and property. We constantly review our investments and adjust our investment strategy in order to maximise returns within this controlled risk profile and take advantage of perceived market inefficiencies.

Investment goals are to earn the best possible returns within the appropriate strategic level of risk, and maintain the financial viability of the funds by ensuring plan assets exceed benefit obligations.

Derivatives are used to limit exposure to market fluctuations and are used within appropriate control environments for direct and externally managed investments. Derivatives are not used for speculative purposes.

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(d) Reconciliation of change in fair value of plan assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Fair value of defined benefit plan assets at beginning of year	**4,518**	4,294	**4,439**	4,224
Expected return on plan assets	**322**	317	**316**	312
Employer contributions	**3**	3	**-**	-
Member contributions	**46**	24	**46**	24
Notional transfer of funds for defined contribution benefits	**(89)**	(75)	**(89)**	(75)
Benefits paid (i)	**(715)**	(185)	**(712)**	(182)
Actuarial gains	**480**	155	**474**	152
Plan expenses after tax	**(15)**	(16)	**(15)**	(16)
Foreign currency exchange rate changes	**3**	1	**-**	-
Fair value of defined benefit plan assets at end of year	**4,553**	4,518	**4,459**	4,439

Our actual return on defined benefit plan assets was 16.2% (2005: 12.5%) for Telstra Super and 12.5% (2005: 6.8%) for HK CSL Retirement Scheme.

(e) Reconciliation of change in present value of wholly funded defined benefit obligation

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Present value of defined benefit obligation at beginning of year	**4,308**	3,837	**4,234**	3,775
Current service cost	**227**	214	**220**	210
Interest cost	**205**	205	**202**	202
Member contributions	**7**	4	**7**	4
Benefits paid (i)	**(715)**	(185)	**(712)**	(182)
Actuarial (gains)/losses	**(340)**	233	**(329)**	225
Curtailment gain	**(17)**	-	**(17)**	-
Present value of wholly funded defined benefit obligation at end of year	**3,675**	4,308	**3,605**	4,234

(i) Benefits paid includes $640 million (2005: $116 million) of entitlements (to exiting defined benefit members) which have been retained in Telstra Super but transferred to the defined contribution scheme.

The following benefit payments, which reflect expected future service, are expected to be paid.

	Telstra Group					
	Year ended 30 June					
	2007	2008	2009	2010	2011	2012 - 2016
	$m	$m	$m	$m	$m	$m
Expected benefit payments	**197**	**204**	**215**	**237**	**257**	**1,712**

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(f) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit plan expense for the year ended 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2006	2005	**2006**	2005
	%	%	**%**	%
Discount rate (i)	**4.7**	5.1	**3.7**	3.8
Expected rate of return on plan assets (ii)	**7.5**	7.5	**6.8**	6.8
Expected rate of increase in future salaries	**4.0**	4.0	**2.5**	2.5

We used the following major assumptions to determine our defined benefit obligations at 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2006	2005	**2006**	2005
	%	%	**%**	%
Discount rate (i)	**5.1**	4.7	**5.0**	3.8
Expected rate of increase in future salaries (ii)	**3.0**	4.0	**4.0**	4.0

(i) The present value of our defined benefit obligations is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

For Telstra Super we have used the 10-year Australian government bond rate as it has the closest term that one could get from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years.

Based on industry practice in Australia, we have adjusted the discount rate for Telstra Super to take into account future investment tax of the fund which is considered part of the ultimate cost to settle the obligation.

Similarly, for the HK CSL Retirement Scheme we have used the 10 year Hong Kong exchange fund yields as it has the closest term that one could get from the Hong Kong market to match the term of the defined benefit obligations.

The discount rate used in calculating the defined benefit obligation at 30 June 2006 was 5.1% p.a. after the adjustment to take into account future investment tax. Holding all other assumptions constant, the effect of a one percentage point decline in the discount rate assumption would be an increase in the 2007 defined benefit plan expense of approximately $69 million and an increase in the defined benefit obligation at 30 June 2006 of approximately $334 million.

(ii) The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes over the subsequent 10 year period, or longer. Estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength. To determine the aggregate return, the expected future return of each asset class is weighted according to the strategic asset allocation of total plan assets.

Our assumption for the expected long-term rate of return on assets is 7% for 2007. As a sensitivity measure, holding all other assumptions constant, the effect of a one percentage point decline in the return on assets assumption would be an increase in our fiscal 2007 defined benefit plan expense of approximately $44 million.

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(g) Employer contributions

Telstra Super

In accordance with our funding deed with the trustee of Telstra Super, we are required to make future employer payments to Telstra Super in relation to the defined benefit plan as may be required. Our contributions to Telstra Super will recommence when the vested benefits index (VBI) - the ratio of defined benefit plan assets to defined benefit members' vested benefits - falls to 103%. Our actuary is satisfied that contributions to maintain the VBI at this rate will maintain the financial position of Telstra Super at a satisfactory level. The VBI of the defined benefit divisions is 115% as at 30 June 2006 (30 June 2005: 111%).

As at 30 June 2003, K O'Sullivan FIAA completed an actuarial investigation of Telstra Super. The next actuarial investigation of Telstra Super is due to be completed by 30 June 2007 based on the scheme's financial position as at 30 June 2006.

The actuarial investigation of Telstra Super reported that a surplus continued to exist. In accordance with the recommendations within the actuarial investigation, we were not expected to, and did not make employer contributions to the Telstra Super defined benefit divisions for the financial year ended 30 June 2006 and 30 June 2005. The current contribution holiday includes the contributions otherwise payable to the accumulation divisions of Telstra Super. The continuance of the holiday is however dependent on the performance of the fund and we are monitoring the situation on a monthly basis in light of current market performance.

Telstra Entity's contribution to the defined contribution divisions of Telstra Super were insignificant for fiscal 2006 and fiscal 2005. Based on the latest actuarial investigation, we do not expect to make any contributions to Telstra Super during fiscal 2007.

HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

Employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2006 were $3 million (2005: $3 million). We expect to contribute $3 million (2005: $3 million) to our HK CSL Retirement Scheme in fiscal 2007.

Annual actuarial investigations are currently undertaken for this scheme by Watson Wyatt Hong Kong Limited.

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(h) Net financial position of plan

The financial position of the defined benefit divisions of Telstra Super and the HK CSL Retirement Scheme is shown as follows:

	Net scheme assets		Accrued benefits		Net surplus (i)		Vested benefits	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Telstra Super (ii)	**4,459**	4,439	**3,079**	3,281	**1,380**	1,158	**3,853**	3,995
HK CSL Retirement Scheme (iii)	**94**	79	**74**	74	**20**	5	**68**	63
	4,553	4,518	**3,153**	3,355	**1,400**	1,163	**3,921**	4,058

(i) In accordance with AAS 25: "Financial Reporting by Superannuation Plans" the plan's net surplus is determined as the difference between the present value of the accrued benefits and the net market value of plan assets.

(ii) Amounts for Telstra Super have been taken from the audited financial report of the scheme as at 30 June 2006 and 30 June 2005. The scheme assets are stated at net market values.

(iii) Amounts for the defined benefit divisions of the HK CSL Retirement Scheme have been taken from the actuarial valuation of the scheme as at 30 June 2006 and 30 June 2005. The scheme assets are stated at net market values.

The estimated period over which the benefits of our members will be returned is 11 years for Telstra Super (2005: 12 years) and 14.5 years for the HK CSL Retirement Scheme (2005: 14.7 years).

The net surplus under AAS 25 of $1,400 million (30 June 2005: $1,163 million) differs from the net defined benefit asset of $1,029 million (30 June 2005: $247 million) recognised in the balance sheet due to different measurement rules in the relevant accounting standards AAS 25 and AASB 119: "Employee Benefits". Both standards require present value discounting of future benefits, however AAS 25 requires the use of a discount rate equal to an expected asset return whereas AASB 119 requires an after-tax bond yield.

Notes to the Financial Statements (continued)

29. Investments in controlled entities

The ultimate parent entity of the Telstra Group is the Commonwealth Government of Australia. Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2006	2005	2006	2005
		$m	$m	%	%
Parent entity					
Telstra Corporation Limited (a)	Australia	-	-	-	-
Controlled entities					
Telecommunications Equipment Finance Pty Ltd * (d)	Australia	-	-	-	-
Telstra Finance Limited (a)	Australia	-	-	100.0	100.0
Telstra Corporate Services Pty Limited * (a)	Australia	7	7	100.0	100.0
Transport Communications Australia Pty Ltd *	Australia	4	4	100.0	100.0
Telstra ESOP Trustee Pty Limited *	Australia	-	-	100.0	100.0
Telstra Growthshare Pty Ltd *	Australia	-	-	100.0	100.0
Telstra Media Pty Limited *	Australia	393	380	100.0	100.0
Telstra Multimedia Pty Limited (a)	Australia	2,678	2,678	100.0	100.0
Telstra International Limited (a)	Australia	2	84	100.0	100.0
Telstra New Wave Pty Ltd * (a)	Australia	1	1	100.0	100.0
Hypertokens Pty Ltd *	Australia	-	-	100.0	100.0
Hypermax Holdings Pty Ltd *	Australia	8	8	100.0	100.0
Chief Entertainment Pty Ltd *	Australia	-	-	100.0	100.0
Data & Text Mining Technologies Pty Ltd *	Australia	-	-	100.0	100.0
Lyrebird Technologies Pty Ltd *	Australia	-	-	100.0	100.0
Telstra OnAir Infrastructure Holdings Pty Ltd * (d)	Australia	-	-	-	100.0
Telstra 3G Spectrum Holdings Pty Ltd *	Australia	302	302	100.0	100.0
1300 Australia Pty Ltd *	Australia	5	5	60.0	60.0
Telstra OnAir Holdings Pty Ltd *	Australia	478	302	100.0	100.0
Converged Networks Pty Ltd * (h)	Australia	1	-	100.0	-
Telstra Payment Solutions Pty Limited (formerly Keycorp Solutions Limited) * (c) (h)	Australia	56	-	100.0	-
ESA Holding Pty Ltd * (j)	Australia	-	16	100.0	100.0
Telstra Business Systems Pty Ltd *	Australia	69	-	100.0	100.0
Telstra Communications Limited (a)	Australia	29	29	100.0	100.0
• Telecom Australia (Saudi) Company Limited (d) (e) (f) (g)	Saudi Arabia	-	-	50.0	50.0
Telstra Rewards Pty Ltd *	Australia	14	14	100.0	100.0
• Telstra Visa Card Trust (d)	Australia	-	-	100.0	100.0
• Qantas Telstra Card Trust (d)	Australia	-	-	100.0	100.0
• Telstra Visa Business Card Trust (d)	Australia	-	-	100.0	100.0
Telstra Media Holdings Pty Limited (a)	Australia	30	30	100.0	100.0
• Telstra Enterprise Services Pty Limited * (a)	Australia	-	-	100.0	100.0
• Telstra Pay TV Pty Ltd (a)	Australia	-	-	100.0	100.0
Communications Network Holdings Pty Ltd * (h)	Australia	4	-	100.0	-
• Advanced Digital Communications (WA) Pty Ltd * (h)	Australia	-	-	100.0	-
• Western Communications Solutions Pty Ltd * (h)	Australia	-	-	100.0	-
Adstream (Aust) Pty Ltd (i)	Australia	23	-	58.0	-
• Adstream Ltd (g) (i)	New Zealand	-	-	100.0	-
• Quickcut (Aust) Pty Ltd (i)	Australia	-	-	100.0	-

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Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
		$m	$m	**%**	%
Controlled entities (continued)					
Telstra Holdings Pty Ltd (a)	Australia	**7,176**	7,176	**100.0**	100.0
• Beijing Australia Telecommunications Technical Consulting Services Company Limited (e) (g)	China	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No. 2 Limited (g)	Bermuda	**-**	-	**100.0**	100.0
• CSL New World Mobility Limited (formerly Telstra CSL Limited) (c) (g) (h)	Bermuda	**-**	-	**76.4**	100.0
• Bestclass Holdings Ltd (g)	British Virgin Islands	**-**	-	**100.0**	100.0
• Hong Kong CSL Limited (g)	Hong Kong	**-**	-	**100.0**	100.0
• Integrated Business Systems Limited (g)	Hong Kong	**-**	-	**100.0**	100.0
• One2Free Personalcom Limited (g)	Hong Kong	**-**	-	**100.0**	100.0
• CSL Limited (g)	Hong Kong	**-**	-	**100.0**	100.0
• New World PCS Holdings Limited (g) (h)	Cayman Islands	**-**	-	**100.0**	-
• New World 3G Limited (g) (h)	Hong Kong	**-**	-	**100.0**	-
• New World PCS Limited (g) (h)	Hong Kong	**-**	-	**100.0**	-
• New World Mobility Limited (g) (h)	Hong Kong	**-**	-	**100.0**	-
• Telstra Holdings (Bermuda) No 1 Limited (g)	Bermuda	**-**	-	**100.0**	100.0
• Telstra International HK Limited (g)	Hong Kong	**-**	-	**100.0**	100.0
• Damovo HK Ltd (g)	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Japan Retail K.K. (g)	Japan	**-**	-	**100.0**	100.0
• Telstra Singapore Pte Ltd (g)	Singapore	**-**	-	**100.0**	100.0
• Telstra Global Limited (g)	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara (g)	Indonesia	**-**	-	**100.0**	100.0
• Telstra Europe Limited (g)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (Cable Telecom) Limited (g)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (PSINet) Limited (g)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (CTE) Limited (g)	United Kingdom	**-**	-	**100.0**	100.0
• Cable Telecommunication Ltd (g)	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Datacentre UK Ltd (g)	United Kingdom	**-**	-	**100.0**	100.0
• Inteligen Communications Limited (g)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra Jersey Limited (g)	Jersey	**-**	-	**100.0**	100.0
• PSINet Hosting Centre Ltd (g)	Jersey	**-**	-	**100.0**	100.0
• Cordoba Holdings Ltd (g)	Jersey	**-**	-	**100.0**	100.0
• London Hosting Centre Ltd (g)	Jersey	**-**	-	**100.0**	100.0
• Telstra Inc. (g)	United States	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (g)	India	**-**	-	**100.0**	100.0
• Telstra Limited (g)	New Zealand	**-**	-	**100.0**	100.0
• Telstra New Zealand Holdings Limited (g)	New Zealand	**-**	-	**100.0**	100.0
• TelstraClear Limited (g)	New Zealand	**-**	-	**100.0**	100.0
• TelstraSaturn Holdings Limited (g)	New Zealand	**-**	-	**100.0**	100.0

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Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005
		$m	$m	**%**	%
Controlled entities (continued)					
• Sytec Resources Ltd (g)	New Zealand	**-**	-	**100.0**	100.0
• Sytec Resources (Australia) Pty Ltd * (g)	Australia	**-**	-	**100.0**	100.0
• DMZ Global Limited (g)	New Zealand	**-**	-	**100.0**	100.0
• DMZ Global (Australia) Pty Ltd * (g)	Australia	**-**	-	**100.0**	100.0
• CLEAR Communications Limited (g)	New Zealand	**-**	-	**100.0**	100.0
Network Design and Construction Limited (a)	Australia	**20**	177	**100.0**	100.0
• NDC Global Holdings Pty Limited * (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (g)	India	**-**	-	**98.0**	98.0
• PT NDC Indonesia (d) (g)	Indonesia	**-**	-	**95.0**	95.0
• NDC Global Philippines, Inc (d) (e) (g)	Philippines	**-**	-	**100.0**	100.0
• NDC Global Services (Thailand) Limited (d) (g)	Thailand	**-**	-	**-**	49.0
• NDC Global Holdings (Thailand) Limited (d) (g)	Thailand	**-**	-	**-**	49.0
• NDC Global Services (Thailand) Limited (d) (g)	Thailand	**-**	-	**-**	51.0
• NDC Global Services Pty Limited * (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (g)	India	**-**	-	**2.0**	2.0
Telstra Services Solutions Holdings Limited (a)	Australia	**911**	911	**100.0**	100.0
• Telstra CB.net Limited (a)	Australia	**-**	-	**100.0**	100.0
• Telstra CB.Com Limited (a)	Australia	**-**	-	**100.0**	100.0
• Telstra CB.fs Limited (a)	Australia	**-**	-	**100.0**	100.0
• Telstra eBusiness Services Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Australasian Insurance Systems Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• TRC Computer Systems Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• DBA Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Brokerlink Pty Ltd * (a)	Australia	**-**	-	**81.3**	81.3
• DBA Computer Systems Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Brokerlink Pty Ltd * (a)	Australia	**-**	-	**18.7**	18.7
• Unilink Group Pty Ltd * (d)	Australia	**-**	-	**-**	100.0
• KAZ Group Pty Limited (a) (i)	Australia	**-**	-	**100.0**	100.0
• KAZ Computer Services (SEA) Pte Limited (d) (g)	Singapore	**-**	-	**100.0**	100.0
• KAZ Computer Services (HK) Ltd (g)	Hong Kong	**-**	-	**75.0**	75.0
• Enhanced Processing Technologies Inc (g) (i)	United States	**-**	-	**100.0**	-
• Australian Administration Services Pty Ltd	Australia	**-**	-	**100.0**	100.0
• AAS Superannuation Services Pty Limited	Australia	**-**	-	**100.0**	100.0
• KAZ Business Services Australia Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• KAZ Business Services Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• KAZ Software Solutions Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Atune Financial Solutions Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• KAZ Technology Services Pty Ltd	Australia	**-**	-	**100.0**	100.0
• IOCORE Asia Pacific Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Techsouth Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• KAZ Technology Services Australia Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Fundi Software Pty Ltd * (j)	Australia	**-**	-	**-**	100.0

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Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2006	2005	2006	2005
		$m	$m	%	%
Controlled entities (continued)					
Sensis Pty Ltd (a) (j)	Australia	**851**	851	**100.0**	100.0
• Platefood Limited (h) (g)	United Kingdom	**-**	-	**61.0**	-
• Just Listed Pty Limited * (a) (j)	Australia	**-**	-	**100.0**	100.0
• CitySearch Australia Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• CitySearch Canberra Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Limited (a) (j)	Australia	**-**	-	**0.0**	33.0
• Trading Post (Australia) Holdings Pty Ltd (a) (j)	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Limited (a) (j)	Australia	**-**	-	**100.0**	67.0
• The Melbourne Trading Post Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• The National Trading Post Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Australian Retirement Publications Pty Limited * (a)	Australia	**-**	-	**100.0**	100.0
• Collectormania Australia Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• The Personal Trading Post Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Auto Trader Australia Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• WA Auto Trader Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Sydney Buy & Sell Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Sydney Auto Trader Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Ad Mag SA & NSW Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Ad Mag AGI Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post (AW) Pty Limited *	Australia	**-**	-	**100.0**	100.0
• Warranty Direct (Australia) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post (TCA) Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Research Resources Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Queensland Trading Post Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Marketing (Qld) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post on the Net Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Australia Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Appraised Staff Agency Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Tradernet Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Classifieds Pty Limited *	Australia	**-**	-	**100.0**	100.0
• Trading Post On Line Pty Limited *	Australia	**-**	-	**100.0**	100.0
• Sensis Holdings Pty Ltd * (i)	Australia	**-**	-	**100.0**	100.0
• Invizage Pty Ltd * (i)	Australia	**-**	-	**100.0**	75.0
• PC S.O.S. Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Universal Publishers Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Sensis (Victoria) Pty Ltd * (h)	Australia	**-**	-	**100.0**	-
Total investment in consolidated entities		**13,062**	12,975		

The amounts recorded are before any provision for reduction in value.

* These entities are Australian small proprietary limited companies, which are not required to prepare and lodge individual audited financial reports with the Australian Securities and Investment Commission.

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee

On 31 May 2006 and 28 June 2006, the Telstra Entity and certain of its controlled entities entered into two revocation deeds, the combined effect of which is to revoke the deed of cross guarantee dated 4 June 1996 (1996 Deed) in its entirety. In accordance with the terms of the 1996 Deed, revocation of the deed does not take effect until the date which is 6 months after lodgement of the relevant revocation deed with the Australian Securities and Investment Commission (ASIC).

A new deed of cross guarantee was entered into on 28 June 2006 (New Deed), pursuant to an ASIC Order dated 22 June 2006 (ASIC Order). The New Deed was entered into between the parties to the revocation deed dated 28 June 2006 and a number of additional controlled entities of the Telstra Entity. The New Deed took effect immediately upon lodgement with ASIC on 30 June 2006.

The following companies have entered into the 1996 Deed and/or the New Deed:

- Telstra Corporation Limited (i) (ii);
- Telstra Corporate Services Pty Limited (i) (ii);
- Telstra Multimedia Pty Limited (i) (ii);
- Telstra International Limited (i) (ii);
- Telstra Communications Limited (i) (ii);
- Telstra Media Holdings Pty Limited (i);
- Telstra Enterprise Services Pty Limited (i);
- Telstra Pay TV Pty Ltd (i);
- Telstra Holdings Pty Ltd (i) (ii);
- Network Design and Construction Limited (i) (ii);
- NDC Global Holdings Pty Limited (i) (ii);
- NDC Global Services Pty Limited (i) (ii);
- Telstra Services Solutions Holdings Limited (i) (ii);
- Telstra eBusiness Services Pty Limited (i) (ii);
- Australasian Insurance Systems Pty Ltd (i);
- TRC Computer Systems Pty Ltd (i);
- DBA Ltd (i);
- Brokerlink Pty Ltd (i);
- DBA Computer Systems Pty Ltd (i);
- KAZ Group Limited (ii);
- KAZ Business Services Pty Ltd (ii);
- KAZ Software Solutions Pty Ltd (ii);
- Atune Financial Services Pty Ltd (ii);
- Sensis Pty Ltd (i) (ii);
- Trading Post (Australia) Holdings Pty Ltd (i) (ii);
- Trading Post Group Pty Limited (i) (ii);
- The Melbourne Trading Post Pty Ltd (i) (ii);
- The National Trading Post Pty Ltd (i) (ii);
- Collectormania Australia Pty Ltd (i) (ii);
- Australian Retirement Publications Pty Limited (i);
- The Personal Trading Post Pty Limited (i) (ii);
- Auto Trader Australia Pty Ltd (i) (ii);
- WA Auto Trader Pty Ltd (i) (ii);
- Just Listed Pty Limited (i) (ii);
- Trading Post (TCA) Pty Ltd (i) (ii);
- Trading Post Australia Pty Limited (i) (ii); and
- Universal Publishers Pty Limited (ii).

(i) Companies which form the 1996 Deed

(ii) Companies which form the New Deed

Telstra Finance Limited is trustee under both the 1996 Deed and the New Deed, however is not a group entity under either deed.

In respect of both the 1996 Deed and the New Deed, the relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order) and the ASIC Order;
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001. This does not apply to Telstra Corporation Limited; and
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

The following companies ceased to be party to the 1996 Deed due to a revocation deed as at 11 September 2005:

- Telstra New Wave Pty Ltd;
- Telstra CB.net Limited;
- Telstra CB.Com Limited; and
- Telstra CB.fs Limited.

(b) ASIC deed of cross guarantee financial information

The consolidated assets and liabilities of the closed group and extended closed group is presented according to both the Class Order and the ASIC Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(b) ASIC deed of cross guarantee financial information (continued)

Closed group balance sheet	New Deed	1996 Deed	
	As at 30 June	As at 30 June	
	2006	2006	2005
	$m	$m	$m
Current assets			
Cash and cash equivalents	479	501	1,421
Trade and other receivables	3,377	3,533	3,553
Inventories	182	175	191
Derivative financial assets	22	22	4
Prepayments	190	202	217
Total current assets	4,250	4,433	5,386
Non current assets			
Trade and other receivables	876	870	884
Inventories	19	19	15
Investments - accounted for using the equity method	22	21	46
Investments - other	3,348	3,421	3,244
Property, plant and equipment	21,792	21,785	21,190
Intangibles	3,491	3,389	3,655
Derivative financial assets	392	392	-
Defined benefit assets	1,004	1,004	241
Total non current assets	30,944	30,901	29,275
Total assets	35,194	35,334	34,661
Current liabilities			
Trade and other payables	2,991	2,973	2,041
Borrowings	2,531	2,323	2,159
Current tax liabilities	400	400	518
Provisions	708	697	378
Derivative financial liabilities	13	13	11
Revenue received in advance	1,089	1,089	1,090
Total current liabilities	7,732	7,495	6,197
Non current liabilities			
Trade and other payables	65	65	62
Borrowings	11,376	11,376	10,907
Deferred tax liabilities	1,582	1,589	1,664
Provisions	951	945	855
Derivative financial liabilities	768	768	864
Revenue received in advance	401	400	387
Total non current liabilities	15,143	15,143	14,739
Total liabilities	22,875	22,638	20,936
Net assets	12,319	12,696	13,725
Equity			
Share capital	5,569	5,569	5,536
Reserves	18	18	12
Retained profits	6,732	7,109	8,177
Equity available to the closed group	12,319	12,696	13,725

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(b) ASIC deed of cross guarantee financial information (continued)

The consolidated profit for the year of the closed group and extended closed group is presented according to both the Class Order and the ASIC Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Closed group income statement and retained profits reconciliation	Note	New Deed Year ended 30 June 2006 $m	1996 Deed Year ended 30 June 2006 $m	1996 Deed Year ended 30 June 2005 $m
Income				
Revenue (excluding finance income)		**20,323**	**20,594**	20,173
Other income		**304**	**318**	254
		20,627	**20,912**	20,427
Expenses				
Labour		**3,843**	**3,796**	3,387
Goods and services purchased		**3,372**	**3,652**	3,266
Other expenses		**4,317**	**4,349**	3,648
		11,532	**11,797**	10,301
Share of net (gain)/loss from jointly controlled and associated entities		**(10)**	**(12)**	(13)
		11,522	**11,785**	10,288
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**9,105**	**9,127**	10,139
Depreciation and amortisation		**3,721**	**3,717**	3,228
Earnings before interest and income tax expense (EBIT)		**5,384**	**5,410**	6,911
Finance income		**120**	**120**	156
Finance costs		**978**	**975**	936
Net finance costs		**858**	**855**	780
Profit before income tax expense		**4,526**	**4,555**	6,131
Income tax expense		**1,380**	**1,378**	1,766
Profit for the year available to the closed group		**3,146**	**3,177**	4,365
Retained profits at the beginning of the financial year available to the closed group		**7,894**	**8,177**	8,467
Actuarial gain/(loss) on our defined benefit plans (net of tax effect)		**661**	**661**	(61)
Share buy-back	21	**-**	**-**	(476)
Transfer out of closed group		**-**	**64**	-
Transfers to retained profits		**-**	**-**	6
Total available for distribution		**11,701**	**12,079**	12,301
Dividends paid		**4,969**	**4,970**	4,124
Retained profits at the end of the financial year available to the closed group		**6,732**	**7,109**	8,177

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(c) Change of company names

- Keycorp Solutions Limited changed its name to Telstra Payment Solutions Limited on 2 September 2005.

  Furthermore, the status of this controlled entity changed from a public to a private company on 18 May 2006 to be named Telstra Payment Solutions Pty Limited.

- On 31 March 2006, Telstra CSL Limited changed its name to CSL New World Mobility Limited.

(d) Liquidations

As at 30 June 2006, the following controlled entities were in voluntary liquidation:

- Telecom Australia (Saudi) Company Limited;
- NDC Global Philippines, Inc;
- PT NDC Indonesia;
- Qantas Telstra Card Trust;
- Telstra Visa Business Card Trust;
- Telstra Visa Card Trust; and
- KAZ Computer Services (SEA) Pte Limited.

The following companies were liquidated or deregistered during fiscal 2006:

- NDC Global Services (Thailand) Limited;
- NDC Global Holdings (Thailand) Limited;
- Telecommunications Equipment Finance Pty Ltd;
- Telstra OnAir Infrastructure Holdings Pty Ltd; and
- Unilink Group Pty Ltd.

(e) Controlled entities with different balance dates

The following companies have balance dates that differ from our balance date of 30 June for fiscal 2006:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December; and
- NDC Global Philippines, Inc - 31 December.

Financial reports prepared as at 30 June are used for consolidation purposes.

(f) Controlled entities in which our equity ownership is less than or equal to 50%

We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

(g) Controlled entities not individually audited by the Australian National Audit Office

Companies not audited by the Australian National Audit Office, our Australian statutory auditor.

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(h) New incorporations and investments

- On 11 August 2005, we established a new entity named Platefood Limited to facilitate a new investment for nominal consideration.

- On 25 August 2005, we established a new entity named Sensis (Victoria) Pty Ltd to facilitate a new investment for nominal consideration.

- On 1 July 2005, we acquired 100% of the issued capital of Keycorp Solutions Limited for a total consideration of $56 million including acquisition costs. Subsequent to acquisition, the entity was renamed to Telstra Payment Solutions Pty Limited.

- On 31 March 2006, we acquired 100% of the issued capital of the Converged Networks Group for a total consideration of $5 million including acquisition costs. Converged Networks Group included the following controlled entities:

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

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

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

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

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

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

(i) Other acquisitions

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

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

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

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

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

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

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

(j) Sales and disposals

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

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

  These controlled entities are all within the Telstra Group.

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

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

Notes to the Financial Statements (continued)

30. Investments in jointly controlled and associated entities

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

Name of Entity	Principal activities	Ownership interest		Telstra Group's carrying amount of investment (*)		Telstra Entity's carrying amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2006	2005	**2006**	2005	**2006**	2005
		%	%	**$m**	$m	**$m**	$m
Jointly controlled entities							
FOXTEL Partnerships (h) (i)	Pay television	**50.0**	50.0	**-**	-	**-**	-
Customer Services Pty Limited (h)	Customer service	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Limited	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (a) (h)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Reach Ltd (incorporated in Bermuda) (e) (h)	International connectivity services	**50.0**	50.0	**-**	-	**-**	-
Xantic B.V. (incorporated in The Netherlands) (b)	Global satellite communications	**-**	35.0	**-**	32	**-**	30
TNAS Limited (incorporated in New Zealand) (e) (h)	Toll free number portability in New Zealand	**33.3**	33.3	**-**	-	**-**	-
Money Solutions Pty Ltd (h)	Financial advice and education services	**50.0**	50.0	**-**	-	**-**	-
HelpYouPay Systems Pty Ltd (b)	Debt management services	**-**	50.0	**-**	-	**-**	-
HelpYouPay Pty Ltd (b)	Debt management services	**-**	50.0	**-**	-	**-**	-
Enhanced Processing Technologies Pty Ltd (a)	Business process outsourcing	**60.0**	60.0	**1**	-	**-**	-
Enhanced Processing Technologies Inc (incorporated in United States) (c)	Software sales	**-**	60.0	**-**	-	**-**	-
Adstream (Aust) Pty Ltd (c)	Digital advertising and asset management	**-**	33.3	**-**	3	**-**	3
3GIS Pty Ltd (e)	Management services	**50.0**	50.0	**-**	-	**-**	-
3GIS Partnership (e)	3G network services	**50.0**	50.0	**-**	-	**-**	-
Bridge Mobile Pte Ltd (incorporated in Singapore)	Regional roaming provider	**12.5**	12.5	**1**	1	**-**	-
m.Net Corporation Limited (d)	Mobile phone content provider	**26.4**	39.5	**-**	-	**-**	-
				2	36	**-**	33
Associated entities							
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (d) (e) (h)	Network cable provider	**46.9**	39.9	**-**	-	**-**	-
Telstra Super Pty Ltd (a) (h)	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
Keycorp Limited (d)	Electronic transactions solutions	**47.6**	47.8	**18**	8	**18**	8
Telstra Foundation Ltd (a)	Charitable trustee organisation	**100.0**	100.0	**-**	-	**-**	-
LinkMe Pty Ltd	Internet recruitment provider	**40.0**	40.0	**3**	4	**-**	-
				21	12	**18**	8

Unless noted at (e), all investments have a balance date of 30 June and are incorporated in Australia. Our voting power is the same as our ownership interest unless otherwise noted.

(i) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership.

(*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any accumulated impairment loss.

Notes to the Financial Statements (continued)

30. Investments in jointly controlled and associated entities (continued)

(a) Associated entities and jointly controlled entities in which we own more than 50% equity

- We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the outside equity shareholders have participating rights that prevent us from dominating the decision making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.

- We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.

- We own 100% of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to $100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra Kids Fund. We do not consolidate TFL as we do not control the Board. However, due to our Board representation we significantly influence this entity. Our voting power is limited to 43%, which is equivalent to our representation on the Board.

- We own 60% of the equity of Enhanced Processing Technologies Pty Ltd. This entity is subject to joint control based on the shareholders' agreement, under which mutual consent of the shareholders is required in determining the financial and operating policies of the entity. As a result, it has been classified as a jointly controlled entity.

(b) Sale of investments

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

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

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

(c) Investments no longer equity accounted

- On 22 December 2005, we acquired the remaining 40% shareholding in Enhanced Processing Technologies Inc giving us ownership of the entity. Prior to this date Enhanced Processing Technologies Inc was a jointly controlled entity and was equity accounted. Refer to note 29 for further details.

- On 1 February 2006, we acquired an additional 24.7% shareholding in Adstream (Aust) Pty Ltd giving us a controlling interest. Prior to this date Adstream (Aust) Pty Ltd was a jointly controlled entity and was equity accounted. Refer to note 29 for further details.

(d) Other changes in jointly controlled and associated entities

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

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

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

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

Notes to the Financial Statements (continued)

30. Investments in jointly controlled and associated entities (continued)

(e) Jointly controlled and associated entities with different balance dates

The following jointly controlled and associated entities have different balance dates to our balance date of 30 June for fiscal 2006:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December; and
- Australia-Japan Cable Holdings Limited - 31 December.

Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in jointly controlled and associated entities with different balance dates is the same at that balance date as 30 June unless otherwise noted.

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

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

(i) In fiscal 2005, previously unrecognised equity accounted losses in Reach Ltd (Reach) were recognised due to our commitment to fund 50% of Reach's committed capital expenditure, which was accounted for as an investment in Reach. Refer to note 36 for further details.

Notes to the Financial Statements (continued)

30. Investments in jointly controlled and associated entities (continued)

(g) Other disclosures for jointly controlled and associated entities

The movements in the consolidated equity accounted amount of our jointly controlled and associated entities are summarised as follows:

		Jointly controlled entities Telstra Group Year ended/As at 30 June		Associated entities Telstra Group Year ended/As at 30 June	
	Note	**2006 $m**	2005 $m	**2006 $m**	2005 $m
Carrying amount of investments at beginning of year		**36**	40	**12**	-
Additional investments made during the year		**5**	14	**-**	3
		41	54	**12**	3
Share of profits/(losses) before income tax expense		**6**	2	**(3)**	12
Share of income tax expense		**-**	(1)	**1**	(7)
Share of profits/(losses) for the year after income tax expense		**6**	1	**(2)**	5
Amortisation of unrealised inter-entity profits after income tax		**1**	2	**-**	-
Share of profits/(losses) for the year		**7**	3	**(2)**	5
Dividends and distributions received		**-**	(1)	**-**	(1)
Share of reserves		**-**	-	**-**	5
Share of foreign currency translation reserve and movements due to exchange rate translations		**1**	(2)	**-**	-
Sale, transfers and reductions of investments during the year		**(47)**	(16)	**(15)**	-
Other		**-**	-	**26**	-
Carrying amount of investments before reduction to recoverable amount		**2**	38	**21**	12
Impairment losses recognised in the income statement during the year		**-**	(2)	**-**	-
Carrying amount of investments at end of year	13	**2**	36	**21**	12
Our share of contingent liabilities of jointly controlled and associated entities - we are not directly liable for these		**-**	-	**6**	-
Our share of capital commitments contracted for by our jointly controlled and associated entities - we are not directly liable for these (i)		**11**	9	**-**	-
Our share of other expenditure commitments contracted for by our jointly controlled and associated entities (other than the supply of inventories) - we are not directly liable for these (i)		**40**	52	**2**	4

(i) The commitments and guarantees of our jointly controlled entities for which we are directly liable are included within note 26 and note 27 respectively.

Notes to the Financial Statements (continued)

30. Investments in jointly controlled and associated entities (continued)

(g) Other disclosures for jointly controlled and associated entities (continued)

Summarised presentation of all of our jointly controlled and associated entities' assets, liabilities, revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

	Jointly controlled entities Telstra Group Year ended/As at 30 June		Associated entities Telstra Group Year ended/As at 30 June	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Current assets	**556**	695	**73**	131
Non current assets	**811**	909	**346**	354
Total assets	**1,367**	1,604	**419**	485
Current liabilities	**950**	1,521	**58**	88
Non current liabilities	**927**	579	**536**	502
Total liabilities	**1,877**	2,100	**594**	590
Net assets	**(510)**	(496)	**(175)**	(105)
Total income	**2,152**	2,335	**150**	174
Total expenses	**2,067**	2,140	**180**	211
Profit/(loss) before income tax expense	**85**	195	**(30)**	(37)
Income tax expense	**3**	8	**4**	6
Profit/(loss) for the year	**82**	187	**(34)**	(43)
Summarised presentation of our share of all our jointly controlled and associated entities revenue and expense items (including jointly controlled entities where equity accounting has been suspended):				
Total income	**1,369**	1,377	**71**	81
Total expenses	**1,326**	1,280	**85**	96
Profit/(loss) before income tax expense	**43**	97	**(14)**	(15)
Income tax expense	**2**	5	**2**	3
Profit/(loss) for the year	**41**	92	**(16)**	(18)

Notes to the Financial Statements (continued)

30. Investments in jointly controlled and associated entities (continued)

(h) Suspension of equity accounting

Our unrecognised share of (profits)/losses for the period and cumulatively, for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount, is shown below:

	Telstra Group			
	Year ended 30 June			
	Period 2006 $m	**Cumulative 2006 $m**	Period 2005 $m	Cumulative 2005 $m
Jointly controlled entities				
FOXTEL Partnerships	**(1)**	**117**	80	118
Reach Ltd	**(34)**	**575**	(206)	609
Associated entities				
Australia-Japan Cable Holdings Limited	**36**	**143**	14	107
	1	**835**	(112)	834

Equity accounting has also been suspended for the following jointly controlled and associated entities:

- Customer Services Pty Limited;
- FOXTEL Cable Television Pty Ltd;
- TNAS Limited;
- Money Solutions Pty Ltd; and
- Telstra Super Pty Ltd.

There are no significant unrecognised profits/losses in these entities.

Notes to the Financial Statements (continued)

31.Employee share plans

The Company has a number of employee share plans that are available for directors, executives and employees, these include:

- the Telstra Employee Share Ownership Plans (TESOP99 and TESOP97); and
- those conducted through the Telstra Growthshare Trust.

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below:

(a) TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in fiscal 2000 and fiscal 1998 we offered eligible employees the opportunity to buy ordinary shares of Telstra. These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

Participating employees are entitled to receive dividends and voting rights in the shares. Telstra ESOP Trustee Pty Ltd is the trustee for TESOP99 and TESOP97 and holds the shares on behalf of participants. This company is 100% owned by Telstra.

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, were subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceased. This restriction period has now been fulfilled under each plan.

If a participating employee leaves the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, to acquire the relevant shares the employee must repay their loan within two months of leaving. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) TESOP99 and TESOP97 (continued)

The following information details the number of outstanding equity instruments and loan balances relevant to the TESOP99 and TESOP97 plans:

	Employee share plans As at 30 June	
	2006	2005
Market price of Telstra shares	**$3.68 per share**	$5.06 per share
Employee share loan balance	**$130 million**	$154 million
TESOP99		
Remaining number of loan shares	**14,387,400**	14,535,900
TESOP97		
Remaining number of loan shares	**32,573,300**	36,674,100
Remaining number of extra shares	**8,143,325**	9,168,525

The fair value of these shares as at 30 June 2006 based on the market value of Telstra shares at balance date amounts to $203 million (2005: $306 million).

The Telstra ESOP Trustee continues to hold the loan shares where the employee has ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs. The Trustee will then sell the shares. As at 30 June 2006, there were 6,418,300 shares held for this purpose (2005: 5,603,100).

The movements in the number of instruments are as follows:

	TESOP97 number	TESOP99 number
Equity instruments outstanding as at 30 June 2004	48,327,000	14,622,000
Exercised	(2,484,375)	(86,100)
Equity instruments outstanding as at 30 June 2005	45,842,625	14,535,900
Exercised	**(5,126,000)**	**(148,500)**
Equity instruments outstanding as at 30 June 2006	**40,716,625**	**14,387,400**

The weighted average loan still to be repaid for the TESOP97 equity instrument is $1.04 (2005: $1.33), and TESOP99 equity instrument is $6.13 (2005: $6.42).

The weighted average share price at the date of the transfers of Telstra shares relating to the exercise of these instruments was $3.95 for TESOP 99 (2005: $4.77) and $3.96 for TESOP 97 (2005: $4.77) based on the closing market price on those dates. The total proceeds received on exercise of TESOP99 was $5 million (2005: $4 million) and TESOP97 was $19 million (2005: $15 million).

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different short and long term incentive equity plans whereby the following equity based instruments may be allocated:

- incentive shares;
- sign-on bonus shares;
- performance rights;
- deferred shares;
- restricted shares; and
- options.

In addition, the following share plans are operated for our non executive directors and certain eligible employees:

- directshares; and
- ownshares.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on the market to underpin the equity instruments issued.

In fiscal 2006, we recorded an expense of $15 million for our share based payments (2005: $10 million). As at 30 June 2006, we had a total expense yet to be recognised of $25 million (2005: $17 million), which is expected to be recognised over a weighted average of 2 years (2005: 2 years).

Our election not to apply AASB 2: “Share based payment” (AASB 2) to equity instruments granted prior to 7 November 2002, as permitted under AASB 1: “First-time Adoption of Australian Equivalents to International Financial Reporting Standards” (AASB 1), has reduced the expense we have recorded, as well as the total expense we are yet to recognise. Refer to note 36(a) for further details.

Short term incentive equity plan

Incentive shares

In fiscal 2006, the Board allocated the executives’ half of their short term incentive payments as rights to acquire Telstra shares. These incentive shares vest in equal parts over a period of one, two and three years on the anniversary of their allocation date, subject to the executive’s continued employment with any entity that forms part of the Telstra Group. The executive can exercise their vested incentive shares at a cost of $1 in total for all of the incentive shares exercised on a particular day.

Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the incentive shares (or vested incentive shares) to vote or receive dividends. Any dividends paid by the Company prior to exercise will increase the number of incentive shares allocated to the executive. The Board has decided not to continue the short term incentive share plan and the short term incentive payment for fiscal 2006 will be delivered in cash.

Incentive shares movements during the year

The following incentive shares were granted during fiscal 2006:

Effective commencement date of instruments	**19 August 2005**
Number of incentive shares issued	**1,986,435**
Market price of Telstra shares on grant date .	**$4.77**
Exercise date - 1 year incentive shares	**19 August 2006**
Exercise date - 2 year incentive shares	**19 August 2007**
Exercise date - 3 year incentive shares	**19 August 2008**
Expiration date	**2 years from each exercise date**

During fiscal 2006, 53,467 incentive shares were forfeited due to resignation, and 97,382 incentive shares were exercised as a result of those executives being made redundant. As a result of the above movements, 1,835,586 incentive shares were outstanding as at 30 June 2006. There were no incentive shares that were exercisable at 30 June 2006.

The fair value of the August 2005 allocation of incentive shares was $4.77. This was calculated using a Black Scholes option pricing model. The following weighted average assumptions were used in determining the valuation:

	Growthshare incentive shares August 2005
Risk free rate - 1 year incentive shares	**5.12%**
Risk free rate - 2 year incentive shares	**5.06%**
Risk free rate - 3 year incentive shares	**5.06%**
Expected stock volatility.	**15%**

Long term incentive equity plans

(i) Nature of share plans

The purpose of the long term incentive plans is to align key executives’ rewards with shareholders’ interests, and reward performance improvement whilst supporting business plans and corporate strategies. These plans are administered through the Telstra Growthshare Trust. The Board determines who is invited to participate in the share plans.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

Long term incentive equity plans

(i) Nature of share plans (continued)

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our long term incentive plan, and deferred shares under our deferred remuneration plan. Instruments issued represent a right to acquire a share in Telstra. Generally, the performance rights, restricted shares and options may only be exercised to acquire Telstra shares if a performance hurdle is satisfied in the performance period and in the case of options, the exercise price is paid by the executive. Deferred shares may only be exercised when a prescribed period of service has been completed.

Performance rights

We have seven types of performance rights on issue. These are:

- total shareholder return (TSR) performance rights - are based on Telstra's total shareholder return;
- earnings per share (EPS) performance rights - are based on the growth of earnings per share in the year of allocation and two subsequent years;
- operating expense growth (OEG) performance rights - are based on a reduction in Telstra's operating expenses;
- revenue growth (RG) performance rights - are based on increases in Telstra's revenue;
- network transformation (NT) performance rights - are based on completion of certain elements in Telstra's network transformation program;
- information technology transformation (ITT) performance rights - are based on a reduction in the number of business support systems (BSS) and operational support systems (OSS) systems used by companies in the Telstra Group; and
- return on investment (ROI) performance rights - are based on an increase in the earnings before interest and tax for Telstra relative to the average investment.

For all types of performance rights, an executive is not entitled to Telstra shares before the performance rights allocated under Telstra Growthshare become vested performance rights and are therefore exercisable. If the performance hurdle is satisfied during the performance period, a specified number of performance rights as determined in accordance with the trust deed and terms of issue, will become vested performance rights. The vested performance rights can then be exercised at any time before the expiry date, otherwise they will lapse. Once the vested performance rights are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the performance rights (or vested performance rights) to vote or receive dividends.

Telstra shares will be transferred to the executive on exercise of vested performance rights. The executive may exercise the performance rights at a cost of $1 in total for all of the performance rights exercised on a particular day.

Deferred shares

The executives were previously provided part of their annual fixed remuneration in the form of rights to Telstra shares that vest upon completing certain employment requirements. Generally, if an executive continues to be employed by an entity that forms part of the Telstra Group three years after the commencement date of the instrument, the deferred share will become a vested deferred share.

Vested deferred shares must be exercised before the expiry date, otherwise they will lapse. Once exercised, Telstra shares will be transferred to the executive. Until this time, the executive can not use the deferred shares or vested deferred shares to vote or receive dividends. The executive may exercise the deferred shares at a cost of $1 in total for all of the deferred shares exercised on a particular day.

Restricted shares

The executive is not entitled to Telstra shares before the restricted shares allocated under the trust are exercised. If the performance hurdle is satisfied in the performance period, the restricted shares will vest and may be exercised at any time before the expiry date, otherwise they will lapse. Once the restricted shares have vested, they become restricted trust shares, which will generally be held by the trustee for the executive for a certain period. Once converted into restricted trust shares, the executive has an interest in Telstra shares and is entitled to dividends, other distributions, and voting rights.

Restricted trust shares are held by the Trustee until the earlier of:

- the period determined in accordance with the trust deed;
- the executive finishes employment with Telstra; or
- a date nominated by the Board.

The executive may exercise restricted shares at a cost of $1 in total for all of the restricted shares exercised on a particular day.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(i) Nature of the share plans (continued)

Options

An executive is not entitled to Telstra shares before the options allocated under Telstra Growthshare initially vest, and then are exercised. This means that the executive cannot use options to vote or receive dividends. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the expiry date otherwise they will lapse. Details of the performance hurdle for options is detailed below.

Once the options are exercised and the option price paid, Telstra shares will be transferred to the executive.

(ii) Performance hurdles

Performance hurdles for instruments issued in fiscal 2006

TSR performance rights

For allocations of TSR performance rights issued in fiscal 2006, the applicable performance hurdle is based on the market value of Telstra shares and the value of accumulated dividends paid to Telstra shareholders. TSR performance rights vest if Telstra's total shareholder return exceeds certain targets over the performance period, which is the five years to 30 June 2010. If the total shareholder return is:

- equal to the minimum target then 50% of the allocation becomes exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- between the maximum and minimum targets then the number of exercisable TSR performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%);
- equal to or greater than the maximum target then 100% of the TSR performance rights will become exercisable; or
- is less than the minimum target all TSR performance rights will lapse.

OEG, RG, NT and ITT performance rights

For allocations of the OEG, RG, NT and ITT performance rights issued in fiscal 2006, the performance hurdles for the initial performance period are:

- if the minimum target is achieved in the initial performance period, (1 July 2005 to 30 June 2008) then 50% of the allocation of performance rights will become exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- if the result achieved is between the maximum and minimum targets, then the number of exercisable performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%);
- if the maximum target is achieved then 100% of the performance rights will become exercisable; or
- if the minimum target is not achieved 25% of the performance rights allocated to the initial performance period will lapse.

Of the performance rights that have not become exercisable in the initial performance period, 75% will be added to the subsequent performance period allocation. The performance targets for the subsequent performance period (1 July 2005 to 30 June 2010) are:

- if the minimum target is met, 50% of the allocation will become exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- if the result achieved is between the maximum and minimum targets, then the number of exercisable performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%); or
- if the maximum target is achieved then all of the performance rights will become exercisable.

If the minimum target is not met in the subsequent performance period, all performance rights will lapse.

ROI performance rights

For the allocation of ROI performance rights issued in fiscal 2006, if the return on investment is:

- equal to the minimum target then 50% of the allocation will become exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- between the maximum and minimum targets, the number of exercisable ROI performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%);
- greater than the maximum target then 100% of the ROI performance rights will become exercisable; or
- is less than the minimum target 25% of the allocated ROI performance rights will lapse.

If the ROI performance rights have not become exercisable in this period, 75% of these performance rights will be added to the allocation of TSR performance rights for measurement against the TSR performance hurdle. If this TSR performance hurdle is not achieved, all ROI performance rights will lapse.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(ii) Performance hurdles (continued)

Performance hurdle for instruments issued between 30 June 2001 and 30 June 2005

EPS performance rights

The number of EPS performance rights that become vested EPS performance rights, and therefore become exercisable, is based on the following:

- if the cumulative growth in EPS from 1 July 2004 to 30 June 2007 is equal to 15.7% then 50% of the allocation becomes exercisable;
- if the cumulative growth in EPS is greater than 15.7% and less than 33.1% then the number of exercisable performance rights is scaled proportionately between 50% and 100%;
- if the cumulative growth in EPS exceeds 33.1% then 100% of the EPS performance rights will become exercisable; or
- if Telstra does not achieve cumulative growth in EPS of 15.7%, all EPS performance rights will lapse.

TSR performance rights and options

For allocations of TSR performance rights made between 30 June 2001 and 30 June 2005, and options issued during fiscal 2002, the applicable performance hurdle is based on comparing Telstra's total shareholder return (TSR) with the TSRs of the companies in the S&P/ASX 200 (Industrial) Index (peer group) within the performance period.

The companies in the peer group are anchored at the effective date of allocation, and this same peer group of companies are then tracked during the performance period. At the end of each quarter during the performance period, the 30 day average TSR is calculated for Telstra and the companies in the peer group for each trading day during that quarter.

Both the number of TSR performance rights and the number of options potentially exercisable are based on the following.

If in the first quarter of the performance period, Telstra's percentile ranking is the 50th percentile or above then:

- the number of TSR performance rights and options that become exercisable for that quarter is scaled proportionately from the 50th percentile (at which 50% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and
- in subsequent quarters, the number that become exercisable is based on the same proportionate scale, but is reduced by the number of performance rights or options that have previously become exercisable. The percentile ranking achieved needs to be above that achieved in previous quarters for additional performance rights and options to become exercisable.

If in the first quarter of the performance period, the percentile ranking is less than the 50th percentile then:

- half of the allocation will lapse; and
- in subsequent quarters, the remaining 50% of the options or performance rights will become exercisable if the ranking is the 50th percentile or above for that quarter.

If Telstra does not achieve or exceed the 50th percentile ranking in any quarter of the performance period, all TSR performance rights and options will lapse.

Performance hurdle for instruments issued prior to 30 June 2001

For all allocations prior to 30 June 2001, which include restricted shares and options, the applicable performance hurdle was that the average Telstra Accumulation Index must exceed the average S&P/ASX 200 (Industrial) Index (replacing the superseded All Industrials Accumulation Index) for thirty consecutive days within the performance period. If the performance hurdle is satisfied for these allocations, all of the relevant options or restricted shares would become exercisable (i.e. they do not become exercisable on a proportionate basis).

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(ii) Performance hurdles (continued)

The following outlines the targets to be achieved for the fiscal 2006 allocation of performance rights to become exercisable:

	3 Year performance rights Initial performance period		5 Year performance rights Subsequent performance period	
	Minimum target	Maximum target	Minimum target	Maximum target
TSR performance rights	N/A	N/A	(a)	(a)
OEG performance rights	2.2% operating expense growth	1.2% operating expense growth	1.1% operating expense growth	0.0% operating expense growth
RG performance rights	2.0% revenue growth	2.5% revenue growth	2.0% revenue growth	2.5%revenue growth
NT performance rights	IP Core and Ethernet complete by 30 June 2008	IP Core and Ethernet complete by 31 December 2007	Multi Service Edge, Soft Switch Platform, Fibre to the Node and Wireless NGN complete by 30 June 2010	Multi Service Edge, Soft Switch Platform, Fibre to the Node and Wireless NGN complete by 31 December 2009
ITT performance rights	350 OSS and BSS systems	250 OSS and BSS systems	250 OSS and BSS systems	200 OSS and BSS systems
ROI performance rights	23.5% return on investment	24.5% return on investment	N/A	N/A

(a) The applicable performance hurdle is based on the market value of Telstra shares and the value of accumulated dividends paid to Telstra shareholders. This has been set by the Board.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iii) Instruments outstanding at the beginning of fiscal 2006

The following performance rights, deferred shares, restricted shares and options were outstanding at the start of fiscal 2006, but were yet to vest with executives.

	Number of instruments outstanding	Commencement date	Performance hurdle period from	Performance hurdle period to	Exercise price	Exercise date (once performance hurdle met) anytime before:
Growthshare 2001 - Sept 2000 allocation						
Options	2,413,900	8 Sept 2000	8 Sept 2003	8 Sept 2005	$6.28	8 Sept 2010
Restricted shares	500,600	8 Sept 2000	8 Sept 2003	8 Sept 2005	$1 per parcel exercised	8 Sept 2005
Growthshare 2001 - March 2001 allocation						
Options	150,000	16 March 2001	16 March 2004	16 March 2006	$6.55	16 March 2011
Restricted shares	40,000	16 March 2001	16 March 2004	16 March 2006	$1 per parcel exercised	16 March 2006
Growthshare 2002 - Sept 2001 allocation						
Options	13,325,153	6 Sept 2001	6 Sept 2004	6 Sept 2006	$4.90	6 Sept 2011
TSR Performance rights	1,273,782	6 Sept 2001	6 Sept 2004	6 Sept 2006	$1 per parcel exercised	8 Dec 2006
Growthshare 2002 - March 2002 allocation						
Options	1,602,000	14 March 2002	14 March 2005	14 March 2007	$5.63	14 March 2012
TSR Performance rights	136,000	14 March 2002	14 March 2005	14 March 2007	$1 per parcel exercised	14 June 2007
Growthshare 2003 - Sept 2002 allocation						
Deferred shares	1,774,023	5 Sept 2002	N/A		$1 per parcel exercised	5 Sept 2007
TSR Performance rights	3,687,224	5 Sept 2002	5 Sept 2005	5 Sept 2007	$1 per parcel exercised	5 Dec 2007
Growthshare 2003 - March 2003 allocation						
Deferred shares	18,600	7 March 2003	N/A		$1 per parcel exercised	7 March 2008
TSR Performance rights	37,200	7 March 2003	7 March 2006	7 March 2008	$1 per parcel exercised	7 June 2008
Growthshare 2004 - Sept 2003 allocation						
Deferred shares	2,025,008	5 Sept 2003	N/A		$1 per parcel exercised	5 Sept 2008
TSR Performance rights	4,099,546	5 Sept 2003	5 Sept 2006	5 Sept 2008	$1 per parcel exercised	5 Dec 2008
Growthshare 2004 - February 2004 allocation						
Deferred shares	18,350	20 Feb 2004	N/A		$1 per parcel exercised	20 Feb 2009
TSR Performance rights	36,700	20 Feb 2004	20 Feb 2007	20 Feb 2009	$1 per parcel exercised	20 May 2009
Growthshare 2005 - August 2004 allocation						
TSR Performance rights	2,424,714	20 Aug 2004	20 Aug 2007	20 Aug 2009	$1 per parcel exercised	20 Nov 2009
EPS Performance rights	2,424,714	20 Aug 2004	1 July 2004	30 June 2007	$1 per parcel exercised	20 Nov 2009

As deferred shares are allocated as annual fixed remuneration, there is no performance hurdle. Generally, deferred shares will become vested deferred shares after a specified service period.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iv) Instruments granted during the financial year

The following performance rights were granted in February 2006 in relation to the 2005 long term incentive plan:

	TSR performance rights	OEG performance rights	RG performance rights	NT performance rights	ITT performance rights	ROI performance rights
Number of executives who were allocated performance rights	220	220	220	220	220	220
Effective commencement date of instruments	24 Feb 2006	24 Feb 2006	24 Feb 2006	24 Feb 2006	24 Feb 2006	24 Feb 2006
Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest	1 July 2005 to 30 June 2010	1 July 2005 to 30 June 2008	1 July 2005 to 30 June 2008	1 July 2005 to 30 June 2008	1 July 2005 to 30 June 2008	1 July 2005 to 30 June 2008
Subsequent performance hurdle period	N/A	1 July 2005 to 30 June 2010	1 July 2005 to 30 June 2010	1 July 2005 to 30 June 2010	1 July 2005 to 30 June 2010	N/A
Number of performance rights issued	571,943	1,143,886	1,143,886	857,914	857,914	1,143,886
Exercise price (once the performance rights become exercisable)	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised
Market price of Telstra shares on commencement date	$3.87	$3.87	$3.87	$3.87	$3.87	$3.87
Fair value (per instrument)	$0.66	$3.18	$3.18	$3.18	$3.18	$3.37
Exercise date (once the instruments become exercisable)	any time before 19 Aug 2012	any time before 19 Aug 2012	any time before 19 Aug 2012	any time before 19 Aug 2012	any time before 19 Aug 2012	any time before 19 Aug 2012

The following performance rights were granted in August 2004:

	TSR performance rights	EPS performance rights
Number of executives who were allocated performance rights	178	178
Effective commencement date of performance rights	20 Aug 2004	20 Aug 2004
Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest	20 Aug 2007 to 20 Aug 2009	1 Jul 2004 to 30 Jun 2007
Number of performance rights issued	2,473,000	2,473,000
Exercise price (once the instruments become exercisable)	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised
Market price of Telstra shares on commencement date	$4.89	$4.89
Fair value (per instrument)	$2.63	$4.18
Exercise date (once the instruments become exercisable)	any time before 20 Nov 2009	any time before 20 Nov 2009

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iv) Instruments granted during the financial year (continued)

The fair value was calculated using a valuation technique that is consistent with the Black Scholes methodology and utilises Monte Carlo simulations. The following weighted average assumptions were used in determining the valuation:

	Growthshare performance rights	
	Feb 2006	**Aug 2004**
Share price	**$3.87**	$4.89
Risk free rate	**5.20%**	5.39%
Dividend yield	**6.0%**	5.5%
Expected stock volatility	**19%**	13.1%
Expected life - performance rights	**date the instruments become exercisable**	5.25 years
Expected rate of achievement of TSR performance hurdles	**15%**	62%

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

As the RG, OEG, NTT, IT and ROI performance rights are not based on market conditions, no adjustment for the expected achievement of the performance hurdles was made in the valuation.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(v) Instruments which have been forfeited during the financial year

The following instruments issued to participating employees have been forfeited during the financial year due to cessation of employment:

Allocation	Instruments forfeited during year ended 30 June 2006	2005
Options		
September 2000	-	419,447
September 2001	**888,153**	1,631,444
March 2002	-	80,000
Restricted shares		
September 2000	-	86,608
Deferred shares		
September 2002	**41,292**	105,856
March 2003	**506**	3,500
September 2003	**94,713**	116,595
TSR Performance rights		
September 2001	**5,500**	158,762
March 2002	-	6,800
September 2002	**180,281**	223,096
March 2003	**1,012**	7,000
September 2003	**272,118**	244,648
August 2004	**198,314**	48,286
February 2006	**4,612**	-
EPS Performance rights		
August 2004	**198,314**	48,286
OEG Performance rights		
February 2006	**9,225**	-
RG Performance rights		
February 2006	**9,225**	-
NT Performance rights		
February 2006	**6,918**	-
ITT Performance rights		
February 2006	**6,918**	-
ROI Performance rights		
February 2006	**9,225**	-

(vi) Instruments exercised during the financial year

In fiscal 2006, there were 2,000 (2005: nil) options that were exercised from the September 2001 allocation at the exercise price of $4.90. The total proceeds received on exercise of these options was $9,800 (2005: nil). The share price at the date of the transfers of Telstra shares relating to these options was $4.81 (2005: nil).

There were 1,241,282 (2005: nil) performance rights exercised from the September 2001 allocation. These instruments were exercised at various dates throughout the year. The weighted average share price at the date of the transfers of Telstra shares relating to the exercise of these instruments was $4.69 (2005: nil) based on the closing market price on those dates.

There was also 1,516,003 deferred shares (2005: 49,834) that were exercised from the September 2002 allocation, 2,094 (2005: nil) deferred shares from the March 2003 and 500,054 deferred shares (2005: 27,486) that were exercised from the September 2003 allocation. These instruments were exercised at various dates throughout the year. The weighted average share price at the date of the transfers of Telstra shares relating to the exercise of these instruments was $4.43 (2005: $4.87) based on the closing market price on those dates.

The total proceeds received on exercise of our options, deferred shares and performance rights was $10,027 (2005: $8), which includes $9,800 from the exercise of our September 2001 allocation of options.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(vii) Instruments which have expired during the financial year

The following instruments issued to participating employees have expired due to the performance hurdle not being met:

Allocation	Instruments expired during year ended 30 June 2006	2005
Options		
September 1999	-	1,395,000
September 2000	**2,413,900**	-
March 2001	**150,000**	-
September 2001	-	16,846,680
March 2002	**801,000**	-
Restricted shares		
September 1999	-	236,500
September 2000	**500,600**	-
March 2001	**40,000**	-
TSR Performance rights		
September 2001		1,607,066
March 2002	**68,000**	-
September 2002	**1,865,832**	-

(viii) Instruments outstanding at the end of fiscal 2006

After movements in our share plans during the financial year, the following instruments remain outstanding as at 30 June 2006:

	Number outstanding As at 30 June 2006
Growthshare 2002 - Sept 2001 allocation	
Options	**12,435,000**
TSR Performance rights	**27,000**
Growthshare 2002 - March 2002 allocation	
Options	**801,000**
TSR Performance rights	**68,000**
Growthshare 2003 - Sept 2002 allocation	
Deferred shares	**216,728**
TSR Performance rights	**1,641,111**
Growthshare 2003 - March 2003 allocation	
Deferred shares	**16,000**
TSR Performance rights	**36,188**
Growthshare 2004 - Sept 2003 allocation	
Deferred shares	**1,430,241**
TSR Performance rights	**3,827,428**
Growthshare 2004 - February 2004 allocation	
Deferred shares	**18,350**
TSR Performance rights	**36,700**
Growthshare 2005 - August 2004 allocation	
TSR Performance Rights	**2,226,400**
EPS Performance Rights	**2,226,400**
Growthshare 2006 - February 2006 allocation	
TSR Performance Rights	**567,331**
OEG Performance Rights	**1,134,661**
RG Performance Rights	**1,134,661**
NT Performance Rights	**850,996**
ITT Performance Rights	**850,996**
ROI Performance Rights	**1,134,661**

Only the September 2001 allocation of options and TSR performance rights, and the September 2002 allocation of deferred shares have become vested instruments, however, they are yet to be exercised.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(ix) Summary of movements

	Incentive shares (i)		Options		Restricted shares		Deferred shares		Performance rights (ii)	
	Number	Weighted average fair value	Number	Weighted average fair value	Number	Weighted average fair value	Number	Weighted average fair value	Number	Weighted average fair value
Equity instruments outstanding as at 30 June 2004	-	-	37,863,624	$1.18	863,708	$4.18	4,139,252	$4.34	11,517,824	$2.98
Granted	-	-	-	-	-	-	-	-	4,946,000	$3.41
Forfeited	-	-	(2,130,891)	$1.22	(86,608)	$3.62	(225,951)	$4.34	(736,878)	$3.04
Exercised	-	-	-	-	-	-	(77,320)	$4.37	-	-
Expired	-	-	(18,241,680)	$1.15	(236,500)	$5.64	-	-	(1,607,066)	$2.86
Equity instruments outstanding as at 30 June 2005	-	-	17,491,053	$1.20	540,600	$3.63	3,835,981	$4.34	14,119,880	$3.14
Granted	**1,986,435**	**$4.77**	**-**	**-**	**-**	**-**	**-**	**-**	**5,719,429**	**$2.97**
Forfeited	**(150,849)**	**$4.77**	**(888,153)**	**$1.13**	**-**	**-**	**(136,511)**	**$4.32**	**(901,662)**	**$3.19**
Exercised	**-**	**-**	**(2,000)**	**$1.13**	**-**	**-**	**(2,018,151)**	**$4.38**	**(1,241,282)**	**$2.86**
Expired	**-**	**-**	**(3,364,900)**	**$1.49**	**(540,600)**	**$3.63**	**-**	**-**	**(1,933,832)**	**$2.99**
Equity instruments outstanding as at 30 June 2006	**1,835,586**	**$4.77**	**13,236,000**	**$1.13**	**-**	**-**	**1,681,319**	**$4.30**	**15,762,533**	**$3.12**
Equity instruments exercisable as at 30 June 2006	**105,899**	**$4.77**	**12,435,000**	**$1.13**	**-**	**-**	**216,728**	**$4.41**	**27,000**	**$2.86**

(i) The incentive shares exercisable relate to those executives that have been made redundant and are then consequently entitled to the incentive shares.

(ii) Performance rights include TSR, EPS, OEG, RG, NT, ITT and ROI performance rights.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

Telstra directshare and ownshare

(i) Nature of Telstra directshare and ownshare

Telstra directshare

Non-executive directors are required to sacrifice a minimum of 20% of their fees toward the acquisition of restricted Telstra shares, known as directshares. Shares are acquired by the trustee from time to time and allocated to the participating directors on a 6 monthly basis, on dates determined by the trustee at its discretion. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- for five years from the date of allocation of the shares;
- until the participating director is no longer a director of, or is no longer employed by, a company in the Telstra Group; or
- until the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the directshares will be transferred to the participating director. The participating director is not able to deal in the shares until this transfer has taken place.

The expense associated with shares allocated under this plan is included in the disclosure for directors' remuneration.

Telstra ownshare

Certain eligible employees may be provided part of their remuneration in Telstra shares. Those employees indicate a preference to be provided Telstra shares as part of their remuneration. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- for three years or five years depending on the elections available to the participant at the time of allocation;
- until the participant ceases employment with the Telstra Group; or
- until the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

(ii) Instruments outstanding at the beginning of fiscal 2006

The following directshares and ownshares were outstanding at the start of fiscal 2006 but were held by the trustee for the benefit of the relevant directors or employees pending expiration of the restriction period:

Directshares	Number of instruments outstanding
15 September 2000 allocation	4,364
19 March 2001 allocation	7,439
14 September 2001 allocation	9,463
14 March 2002 allocation	11,857
5 September 2002 allocation	12,937
7 March 2003 allocation	29,922
5 September 2003 allocation	23,132
20 February 2004 allocation	26,369
20 August 2005 allocation	7,567
19 February 2005 allocation	26,013
	159,063

Ownshares	
15 September 2000 allocation	49,928
14 September 2001 allocation	47,202
5 September 2002 allocation	471,135
28 October 2002 allocation	138,232
5 September 2003 allocation	333,587
31 October 2003 allocation	207,140
20 August 2004 allocation	318,074
29 October 2004 allocation	247,168
	1,812,466

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iii) Instruments granted during the financial year

The following directshares were granted in August and February of fiscal 2006 and fiscal 2005:

	Directshare Equity Plan			
	Aug 2005	**Feb 2006**	**Aug 2004**	**Feb 2005**
Number of eligible non-executive directors	**6**	**6**	8	8
Number of participants in the plan	**6**	**6**	8	8
Grant date of shares	**19 August 2005**	**17 February 2006**	20 August 2004	19 February 2005
Number of shares allocated	**20,699**	**31,286**	7,567	26,013
Fair value of shares allocated	**$4.78 per share**	**$4.05 per share**	$4.89 per share	$5.29 per share
Total fair value of shares allocated	**$98,941**	**$126,708**	$37,003	$137,609

The following ownshares were granted in August and October of fiscal 2006 and fiscal 2005:

	Ownshare Equity Plan			
	Aug 2005	**Oct 2005**	**Aug 2004**	**Oct 2004**
Number of eligible participants	**9,612**	**17,559**	8,975	16,062
Number of participants in the plan	**414**	**151**	311	173
Grant date of shares	**19 August 2005**	**28 October 2005**	20 August 2004	29 October 2004
Number of shares allocated	**506,420**	**270,415**	348,240	250,386
Fair value of shares allocated	**$4.78 per share**	**$4.18 per share**	$4.89 per share	$4.67 per share
Total fair value of shares allocated	**$2,420,688**	**$1,130,335**	$1,702,894	$1,169,303

On an allocation of directshares and ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The August allocation of ownshares relates to employees short term incentive payments and the October allocation relates to shares acquired through salary sacrifice by employees.

The fair value of the instruments issued is determined by the remuneration foregone by the participant. The number of directshares or ownshares allocated is based on the weighted average price of a Telstra share in the week ending on the day before allocation date, in conjunction with the remuneration foregone.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iv) Instruments exercised during the financial year

Directshares and ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are merely transferred to the participants at the completion of the restriction period.

The following fully paid shares have been distributed from the Telstra Growthshare Trust at various dates throughout fiscal 2006 to directors and executives under the directshare and ownshare plans respectively:

	No. of shares distributed	Fair value
Directshares	**45,060**	**$189,415**
Ownshares	**901,607**	**$3,763,870**

The following fully paid shares relating to the same plans were distributed during fiscal 2005:

	No. of shares distributed	Fair value
Directshares	13,644	$68,629
Ownshares	425,950	$2,033,620

The fair value of directshares and ownshares distributed is determined through reference to the closing market price of a Telstra share on the date of transfer.

(v) Instruments outstanding at the end of fiscal 2006

Directshares	No. of instruments outstanding as at 30 June 2006
14 September 2001 allocation	**5,616**
14 March 2002 allocation	**8,348**
5 September 2002 allocation	**8,933**
7 March 2003 allocation	**23,879**
5 September 2003 allocation	**18,488**
20 February 2004 allocation	**21,380**
20 August 2005 allocation	**6,223**
19 February 2005 allocation	**21,136**
19 August 2005 allocation	**20,699**
17 February 2006 allocation	**31,286**
	165,988

Ownshares	No. of instruments outstanding as at 30 June 2006
14 September 2001 allocation	**32,395**
5 September 2003 allocation	**293,764**
31 October 2003 allocation	**165,932**
20 August 2004 allocation	**282,031**
29 October 2004 allocation	**194,084**
19 August 2005 allocation	**474,237**
28 October 2005 allocation	**245,251**
	1,687,694

Sign-on bonus shares

Certain eligible employees may be provided sign-on bonus shares upon commencing employment at Telstra. These shares are held in trust, although the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- until a date determined by the chief executive officer; or
- until the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the sign-on bonus shares will be transferred to the participating employee. The employee is not able to deal in the shares until this transfer has taken place.

There were 67,694 (2005: nil) sign-on bonus shares issued in fiscal 2006 to one employee (2005: nil) on 30 March 2006. The fair value of the shares allocated was $3.69 with a total fair value allocated of $249,791. These shares were still outstanding at 30 June 2006.

The fair value of the sign-on bonus shares is based on the weighted average price of a Telstra share in the week ending on the day before allocation date.

Notes to the Financial Statements (continued)

32. Key management personnel compensation

Our key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. Our KMP consist of:

- the directors' of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, referred to as a 'senior executive' in this report.

Directors

During fiscal 2006 and fiscal 2005, the directors' of the Telstra Entity were:

Name	Position
Current directors	
Donald G McGauchie	Chairman, Non Executive Director, appointed Chairman 20 July 2004
Solomon D Trujillo	Chief Executive Officer and Executive Director, appointed 1 July 2005
Belinda J Hutchinson	Non Executive Director,
Catherine B Livingstone	Non Executive Director,
Charles Macek	Non Executive Director,
John W Stocker	Non Executive Director,
Peter Willcox	Non Executive Director, appointed 17 May 2006
John Zeglis	Non Executive Director, appointed 17 May 2006
Former directors	
John T Ralph	Deputy Chairman, Non Executive Director, retired 11 August 2005
Zygmunt E Switkowski	Chief Executive Officer and Executive Director, resigned 1 July 2005
Samuel H Chisholm	Non Executive Director, resigned 28 October 2004
Anthony J Clark	Non Executive Director, retired 11 August 2005
John E Fletcher	Non Executive Director, resigned 30 June 2006

Senior executives

On 1 July 2005, Mr Solomon Trujillo was appointed CEO and Executive Director. Subsequent to Mr Trujillo's appointment, we reassessed our KMP in light of the new organisational structure. The senior executives that qualified as KMP for the current year were:

Name	Position
Fiscal 2006 senior executives	
Bruce Akhurst	Chief Executive Officer, Sensis
Kate McKenzie	Group Managing Director, Telstra Wholesale, appointed 16 January 2006
David Moffatt	Group Managing Director, Telstra Consumer Marketing and Channels
Deena Shiff	Group Managing Director, Telstra Business, appointed 30 January 2006; previously Group Managing Director Telstra Wholesale from 1 January 2005 to 30 January 2006
John Stanhope	Chief Financial Officer and Group Managing Director, Finance and Administration
David Thodey	Group Managing Director, Telstra Enterprise and Government
Gregory Winn	Group Managing Director, Telstra Operations, appointed 11 August 2005

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

Senior executives (continued)

During fiscal 2005, the senior executives that formed part of our KMP were:

Name	Position
Fiscal 2005 senior executives	
Bruce Akhurst	Chief Executive Officer, Sensis, appointed 1 January 2005; previously Group General Council and Group Managing Director, Telstra Wholesale, Telstra Broadband and Media until 31 December 2004
Douglas Campbell	Group Managing Director, Telstra Country Wide, retired 31 December 2005
David Moffatt	Group Managing Director, Telstra Consumer and Marketing
Ted Pretty	Group Managing Director, Telstra Technology, Innovation and Products, ceased 19 August 2005
Michael Rocca	Group Managing Director, Infrastructure Services
Bill Scales	Group Managing Director, Regulatory, Corporate and Human Relations, retired 12 August 2005
Deena Shiff	Group Managing Director, Telstra Wholesale appointed 1 January 2005
John Stanhope	Chief Financial Officer and Group Managing Director, Finance and Administration
David Thodey	Group Managing Director, Telstra Enterprise and Government

Certain senior executives classified as KMP in the prior year have either resigned, retired or are no longer considered KMP for the purposes of the applicable accounting standard in fiscal 2006.

KMP aggregate compensation

During fiscal 2006 and fiscal 2005, the aggregate compensation provided to our KMP was:

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2006	2005	2006	2005
	$m	$m	$m	$m
Short term employee benefits	**21,841,244**	16,183,799	**21,841,244**	16,183,799
Post employment benefits	**2,029,681**	1,468,559	**2,029,681**	1,468,559
Other long term benefits	**245,279**	272,833	**245,279**	272,833
Termination benefits	**4,027,495**	-	**4,027,495**	-
Equity settled share based payments	**4,907,315**	9,249,062	**4,907,315**	9,249,062
	33,051,014	27,174,253	**33,051,014**	27,174,253

The compensation for each individual KMP with additional details regarding the category of compensation is provided on the following pages.

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

KMP individual compensation

During fiscal 2006, the compensation provided to each individual KMP was:

	Short term employee benefits				Post employment		Other long term benefits	Termination benefits	Equity settled share based payments				Total
Year ended 30 June 2006	Salary & fees $	Short term incentives $	Non-monetary $	Other $	Superannuation $	Retirement benefits $	$	$	Short term incentives $	Directshare $	Deferred shares $	Other equity $	$
Directors													
D McGauchie . .	**312,236**	**-**	**3,078**	**-**	**12,158**	**60,094**	**-**	**-**	**-**	**81,099**	**-**	**-**	**468,665**
J Ralph (a) (e) . .	**17,474**	**-**	**380**	**-**	**-**	**-**	**-**	**462,548**	**-**	**-**	**-**	**-**	**480,402**
S Trujillo (b) (c) .	**2,987,861**	**2,581,200**	**-**	**1,745,011**	**1,012,139**	**-**	**75,000**	**-**	**-**	**-**	**-**	**309,305**	**8,710,516**
Z Switkowski (a) (d)	**5,451**	**-**	**35**	**-**	**281**	**-**	**-**	**3,151,526**	**-**	**-**	**491,049**	**4,516**	**3,652,858**
A Clark (a) (e) . .	**9,015**	**-**	**458**	**-**	**970**	**-**	**-**	**278,846**	**-**	**-**	**-**	**-**	**289,289**
J Fletcher (a) (e) .	**94,209**	**-**	**2,775**	**-**	**8,056**	**-**	**-**	**134,575**	**-**	**26,422**	**-**	**-**	**266,037**
B Hutchinson . .	**100,611**	**-**	**2,288**	**-**	**18,551**	**11,943**	**-**	**-**	**-**	**29,740**	**-**	**-**	**163,133**
C Livingstone . .	**113,063**	**-**	**2,288**	**-**	**10,998**	**11,849**	**-**	**-**	**-**	**31,015**	**-**	**-**	**169,213**
C Macek.	**123,032**	**-**	**2,748**	**-**	**11,227**	**12,099**	**-**	**-**	**-**	**33,565**	**-**	**-**	**182,671**
J Stocker	**110,817**	**-**	**2,288**	**-**	**39,006**	**13,026**	**-**	**-**	**-**	**37,390**	**-**	**-**	**202,527**
P Willcox (b) . . .	**11,872**	**-**	**-**	**-**	**1,069**	**-**	**-**	**-**	**-**	**3,235**	**-**	**-**	**16,176**
J Zeglis (b)	**12,941**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,235**	**-**	**-**	**16,176**
	3,898,582	**2,581,200**	**16,338**	**1,745,011**	**1,114,455**	**109,011**	**75,000**	**4,027,495**	**-**	**245,701**	**491,049**	**313,821**	**14,617,663**
Senior executives													
B Akhurst	**984,974**	**1,519,035**	**11,740**	**-**	**188,026**	**-**	**29,325**	**-**	**276,443**	**-**	**115,592**	**650,036**	**3,775,171**
K McKenzie (b). .	**223,280**	**180,950**	**-**	**-**	**20,787**	**-**	**6,026**	**-**	**22,067**	**-**	**-**	**30,871**	**483,981**
D Moffatt	**876,970**	**1,019,991**	**18,138**	**-**	**316,030**	**-**	**29,825**	**-**	**131,095**	**-**	**129,101**	**779,461**	**3,300,611**
D Shiff.	**645,857**	**768,951**	**6,062**	**-**	**116,643**	**-**	**20,000**	**-**	**155,829**	**-**	**37,438**	**214,391**	**1,965,171**
J Stanhope	**919,499**	**655,412**	**9,668**	**-**	**101,001**	**-**	**25,825**	**-**	**126,792**	**-**	**76,968**	**335,804**	**2,250,969**
D Thodey	**1,031,086**	**926,798**	**8,248**	**-**	**52,914**	**-**	**27,100**	**-**	**108,869**	**-**	**105,198**	**560,789**	**2,821,002**
G Winn (b) (f) . .	**1,280,944**	**1,408,918**	**1,685**	**1,101,907**	**10,814**	**-**	**32,178**	**-**	**-**	**-**	**-**	**-**	**3,836,446**
	5,962,610	**6,480,055**	**55,541**	**1,101,907**	**806,215**	**-**	**170,279**	**-**	**821,095**	**-**	**464,297**	**2,571,352**	**18,433,351**
	9,861,192	**9,061,255**	**71,879**	**2,846,918**	**1,920,670**	**109,011**	**245,279**	**4,027,495**	**821,095**	**245,701**	**955,346**	**2,885,173**	**33,051,014**

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

KMP individual compensation (continued)

(a) These personnel retired or resigned from their position during fiscal 2006. After the date of retirement or resignation, these personnel were not considered to be KMP. As a result, the disclosed compensation includes only compensation during their period of services as a KMP.

(b) These personnel were appointed to the position during fiscal 2006. Prior to the date of appointment, these personnel were not considered to be KMP. As a result, the disclosed compensation includes only compensation from the date of appointment.

(c) On commencement of employment, Mr Trujillo received a one-off sign-on bonus of $1,000,000. This bonus was subsequently transferred to superannuation during fiscal 2006.

In addition, Mr Trujillo received a sign-on incentive in the amount of 50% of his maximum potential benefit under the short term incentive plan ($1,500,000), which has been included in short term incentives. The amount of the sign-on incentive was deducted from his potential short term incentive for the first year of employment.

Other compensation for Mr Trujillo relates to compensation provided for tax equalisation, travel, accommodation and certain relocation costs.

(d) Dr Switkowski ceased employment with the Company effective 1 July 2005. As a result, Dr Switkowski's compensation includes one day of benefits, together with his termination benefits and equity settled share based payments.

Termination benefits relate to entitlements under Dr Switkowski's employment contract, equal to 12 months fixed remuneration, in addition to accrued annual leave and long service leave entitlements. Fixed remuneration comprises salary, superannuation and the value of salary sacrificed items.

Other equity compensation represents one day of expense for various instruments, including options, performance rights and restricted shares. These instruments are subject to performance hurdles and may become exercisable in future reporting periods. Refer note 33 for further details on Dr. Switkowski's holdings of equity instruments upon leaving the Company.

Upon ceasing employment, the deferred shares previously allocated to Dr Switkowski vested and became immediately exercisable. As such, the unamortised amount of compensation was immediately recognised.

(e) Termination benefits paid during fiscal 2006 are to directors that resigned or retired during the year. Termination benefits represent the payment of retirement benefits that accumulated during the period of employment.

(f) Other compensation for Mr Winn comprises a one-off sign-on bonus of $500,000 and compensation provided for tax equalisation, travel, accommodation and certain relocation costs.

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

KMP individual compensation (continued)

During fiscal 2005, the compensation provided to each individual KMP was:

	Short term employee benefits				Post employment		Other long term benefits	Equity settled share based payments			Total
Year ended 30 June 2005	Salary & fees $	Short term incentives $	Non-monetary $	Other $	Superan-nuation $	Retirement benefits $	$	Directshare $	Deferred shares $	Other equity $	$
Directors											
D McGauchie	225,503	-	2,317	2,837	11,484	195,396	-	60,054	-	-	497,591
J Ralph	142,957	-	2,253	-	-	79,940	-	19,305	-	-	244,455
Z Switkowski	1,830,900	1,961,000	24,357	-	101,850	-	52,300	-	725,912	2,045,313	6,741,632
S Chisholm (a)	-	-	-	-	-	-	-	-	-	-	-
A Clark	75,706	-	2,753	-	8,493	48,811	-	13,114	-	-	148,877
J Fletcher	43,795	-	3,015	-	6,705	35,603	-	40,000	-	-	129,118
B Hutchinson	70,065	-	2,253	-	6,692	32,004	-	19,189	-	-	130,203
C Livingstone	77,764	-	2,253	-	8,537	46,216	-	21,575	-	-	156,345
C Macek	79,584	-	2,057	-	8,717	40,160	-	22,075	-	-	152,593
J Stocker	71,975	-	2,253	-	6,478	73,130	-	52,173	-	-	206,009
	2,618,249	1,961,000	43,511	2,837	158,956	551,260	52,300	247,485	725,912	2,045,313	8,406,823
Senior executives											
B Akhurst	927,664	523,600	11,893	-	177,086	-	29,325	-	196,141	732,594	2,598,303
D Campbell	941,394	310,600	10,149	-	88,356	-	26,825	-	196,141	732,354	2,305,819
D Moffatt (c)	1,133,165	248,300	18,781	400,000	11,585	-	29,825	-	220,968	801,183	2,863,807
T Pretty (c)	1,120,581	540,500	22,370	260,000	24,169	-	29,825	-	224,936	789,217	3,011,598
M Rocca	735,791	416,600	9,817	-	140,459	-	23,375	-	145,754	401,479	1,873,275
B Scales	681,167	428,700	9,635	-	117,583	-	21,625	-	121,946	326,788	1,707,444
D Shiff (b)	277,321	295,150	1,326	-	47,680	-	8,058	-	30,641	102,562	762,738
J Stanhope	800,685	240,150	11,398	-	99,065	-	24,575	-	105,628	365,338	1,646,839
D Thodey	966,890	206,200	8,375	-	52,360	-	27,100	-	176,235	560,447	1,997,607
	7,584,658	3,209,800	103,744	660,000	758,343	-	220,533	-	1,418,390	4,811,962	18,767,430
	10,202,907	5,170,800	147,255	662,837	917,299	551,260	272,833	247,485	2,144,302	6,857,275	27,174,253

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

KMP individual compensation (continued)

(a) During fiscal 2005, Mr Chisholm declined to receive fees for his Board duties to Telstra. Mr Chisholm resigned during fiscal 2005.

(b) Ms Shiff was appointed to the position of Group Managing Director during fiscal 2005. Prior to the date of appointment, Ms Shiff was not considered to be a KMP. As a result, the disclosed compensation includes only compensation from the date of appointment.

(c) Relates to annual contract payments made to certain executives for continued service with Telstra or as part of their employment contract. These payments were determined at the executives' initial entry into their contract for employment with the Company.

Principles of compensation

Our directors are remunerated in accordance with the constitution, which provides for the aggregate limit for directors' fees to be set and varied only by approval of a resolution at the annual general meeting of shareholders. Our constitution provides that the allocation of fees to directors within the pool limit shall be determined by the Board.

In order to maintain the directors independence and impartiality, the compensation of the non-executive directors is not linked to the performance of the Company, except through their participation in Directshares. Our directors must sacrifice at least 20% of their fees into Telstra shares to align their interests with those of our shareholders, refer to note 31 for further details on Directshares.

The Telstra Entity has a Remuneration Committee, which is a committee of Board members responsible for reviewing and recommending to the Board the compensation arrangements for the CEO and executives, which includes the senior executives defined as KMP.

Our compensation structure includes both fixed remuneration and performance incentives designed to complement each other and support the execution of our business strategy in both the short and long term. Fixed compensation comprised salary, superannuation and the value of salary sacrificed items.

We reward our senior executives for performance through a combination of short term incentives (STI) and long term incentives (LTI). The STI rewards the CEO and executives for meeting or exceeding specific key annual business and individual performance measures. Measures and targeted achievement levels are reviewed each year to reflect changes in the business priorities for the forthcoming year.

The STI in relation to fiscal 2006 will be delivered in cash. The STI in relation to fiscal 2005 was allocated half in cash and half in rights to Telstra shares, called 'incentive shares'. The cash portion of the fiscal 2005 STI was included in short term employee benefits during fiscal 2005 and the incentive shares component was included in equity settled share based payments during fiscal 2006 to represent when the instruments were granted.

The incentive shares vest equally over a period of one, two and three years on the anniversary of their allocation date, subject to the executives' continued employment with any entity that forms part of the Telstra Group. The first third granted will vest on 19 August 2006.

In fiscal 2005, Mr Scales and Dr Switkowski were the only senior executives that received their STI in cash, as they ceased employment with the Company prior to the allocation of the equity component.

The LTI is intended to support our business strategy by aligning executive compensation with key performance measures and targets that support our transformation. On an annual basis, we invite selected executives who contribute significantly to sustained improvement in shareholder value to participate in an equity based LTI plan, administered through Growthshare. LTI equity instruments issued through the trust can only be exercised to obtain normal ordinary shares between certain time periods and if specific long term Company performance hurdles have been achieved.

During fiscal 2006 and fiscal 2005, our executives received performance rights which will vest in future reporting periods depending upon the company's achievement of the relevant performance measures. The performance rights have been recorded in other equity in the KMP individual compensation tables.

During fiscal 2005, our deferred share program was discontinued. As the deferred shares will continue to vest over the relevant performance periods, a portion of the value of the deferred shares will continue to be allocated to the executive's compensation until all deferred shares have vested or lapsed. This treatment is consistent with our other equity plans which have been discontinued, such as our option plan and restricted share plan. The deferred shares have been recorded as deferred remuneration in the KMP individual compensation tables.

For further details of our LTI plans, including detailed explanation of performance hurdles and allocations, refer to note 31.

We recognise an expense for all share-based compensation determined with reference to the fair value at grant date of the equity instruments issued. The fair value is reflected in the KMP's compensation over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. Refer to note 2.25 for details on our accounting policy for equity settled share based payments.

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

Individual contracts for services

There are no individual contracts for service with our non-executive directors other than retirement benefits classified as post employment benefits. Only directors appointed prior to 30 June 2002 are eligible to receive retirement benefits upon leaving office.

Our individual senior executives are employed under contracts without a fixed duration, except Mr Winn who was appointed on a two year fixed duration contract. Where both parties mutually agree, Mr Winn's contract can be extended for a further one year.

Where Telstra terminates an executives' employment prior to the expiration of their employment contract for reasons other than for misconduct, the senior executive is entitled to between 1 and 6 months notice depending on their respective contract conditions. Alternatively, the individual is entitled to payment in lieu of notice and between 6 and 12 months pay depending on their respective contract conditions. Both elements are calculated on fixed remuneration at the time of termination.

We have included detailed disclosures in relation to the principles of compensation and individual contracts for services in the Remuneration Report, which forms part of the Directors' Report for the year ended 30 June 2006. In accordance with the Corporations Amendment Regulations 2006 (No.4), 2001, please refer to the Remuneration Report for detailed commentary.

Notes to the Financial Statements (continued)

33. Related party disclosures

Transactions involving our controlled entities

Our transactions with our controlled entities recorded in the income statement and balance sheet are as follows:

		Telstra Group		Telstra Entity	
		Year ended/As at 30 June		Year ended/As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Income from controlled entities:					
Sale of goods and services (a)		**-**	-	**1,092**	1,072
Finance income (a)		**-**	-	**3**	5
Dividend revenue (b)	6	**-**	-	**560**	223
Expenses to controlled entities:					
Purchase of goods and services (a)		**-**	-	**399**	362
Finance costs (a)		**-**	-	**20**	19
Impairment of receivables:					
Impairment in amounts owed by controlled entities (c)	7(a)	**-**	-	**382**	475
Reversal of impairment in amounts owed by controlled entities (c)	7(a)	**-**	-	**-**	(15)
Total amounts receivable at 30 June from:					
Current					
Controlled entities (a) (d)	11	**-**	-	**2,267**	2,194
Allowance for amounts owed by controlled entities (c)	11	**-**	-	**(1,851)**	(1,469)
		-	-	**416**	725
Non current					
Controlled entities (a)	11	**-**	-	**60**	56
Total amounts payable at 30 June to:					
Current					
Controlled entities - payables (a) (d)	17	**-**	-	**197**	5
Controlled entities - loans (e)	18	**-**	-	**1,408**	2,400
		-	-	**1,605**	2,405

(a) The Telstra Entity sold and purchased goods and services and received and paid interest to its controlled entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

The Telstra Entity and certain Australian controlled entities have entered into a deed of cross guarantee. Under this deed, each company (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 29 for further details regarding our closed group.

Details of our individual significant transactions involving our controlled entities during fiscal 2006 are detailed as follows:

- the Telstra Entity received procurement fees from its controlled entity Sensis Pty Ltd for the use of Yellow Pages® and White Pages® trademarks amounting to $647 million (2005: $628 million). As at 30 June 2006, the Telstra Entity recorded revenue received in advance amounting to $332 million (2005: $344 million) for the use of these trademarks;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to $218 million (2005: $211 million) for undertaking agency and contract management services for the national directory service; and
- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to $292 million (2005: $284 million) for access to ducts that store the national hybrid fibre coaxial (HFC) cable network.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

Transactions involving our controlled entities (continued)

(b) The Telstra Entity recorded dividend revenue during fiscal 2006 from the following controlled entities:

- Network Design and Construction Limited of $200 million (2005: $nil); and
- Telstra International Limited of $360 million (2005: $nil).

During fiscal 2005, the Telstra Entity recognised tax consolidation distributions from certain wholly owned Australian entities amounting to $223 million in relation to tax losses incurred by these entities that were able to be utilised by the Telstra Entity. This was on the basis that no tax funding arrangement was in place between the entities within the tax consolidated group. Refer to note 9 for further details on tax consolidation.

(c) The profit before income tax expense of the Telstra Entity included an impairment loss of $382 million (2005: $475 million) relating to a movement in allowance for amounts owed by a controlled entity. Refer to note 25 for further details regarding impairment.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, which is treated as a single entity for income tax purposes.

During fiscal 2006, the entities within the tax consolidated group entered into a tax funding arrangement. The amounts receivable or amounts payable to the Telstra Entity under this arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. During fiscal 2005, no tax funding arrangement was in place and as a result, these funding amounts were recorded in our investment in controlled entities. Refer to note 9 for further details on tax consolidation.

(e) The Telstra Entity operates a current account with some of its Australian controlled entities, being an internal group bank account used to settle transactions with its controlled entities or between two controlled entities. Cash deposit balances in the current account owed to our controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. Refer to note 18 for further discussion on our borrowings.

Transactions involving our parent entity

The Commonwealth of Australia is the ultimate parent and controlling entity of the Telstra Group. Telstra Corporation Limited is the parent entity in the Telstra Group comprising the Telstra Entity and its controlled entities.

We supply telecommunications services to, and acquire other services from, the Commonwealth of Australia, its Departments of State, trading and other agencies. These transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There are no exclusive rights to supply any of these services.

Services provided to any one governmental department or agency or the combination of all of these services in total, do not represent a significant component of our operating revenues. For these reasons, the financial report does not disclose transactions relating to the purchase and sale of goods and services from or to the Commonwealth of Australia, its Departments of State, trading and other agencies.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

Transactions involving our jointly controlled and associated entities

Our transactions with our jointly controlled and associated entities recorded in the income statement and balance sheet are as follows:

		Telstra Group		Telstra Entity	
		Year ended/As at 30 June		Year ended/As at 30 June	
		2006	2005	**2006**	2005
	Note	**$m**	$m	**$m**	$m
Income from jointly controlled and associated entities:					
Sale of goods and services (a)		**177**	165	**83**	97
Finance income (a)		**-**	-	**-**	18
Dividend revenue	6	**-**	-	**-**	1
Expenses to jointly controlled and associated entities:					
Purchase of goods and services (a)		**510**	533	**245**	277
Impairment of receivables:					
Impairment in amounts owed by jointly controlled entities	7(a)	**2**	5	**-**	-
Total amounts receivable at 30 June from:					
Current					
Jointly controlled and associated entities - trade debtors (a)		**32**	16	**22**	12
Non current					
Jointly controlled and associated entities - loans (b)	11	**229**	242	**210**	204
Allowance for amounts owed by jointly controlled and associated entities (b)	11	**(215)**	(210)	**(210)**	(204)
		14	32	**-**	-
Total amounts payable at 30 June to:					
Current					
Jointly controlled and associated entities - payables (a)		**62**	21	**59**	13

(a) We sold and purchased goods and services, and received interest from our jointly controlled and associated entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

Details of our individual significant transactions involving our jointly controlled and associated entities during fiscal 2006 are detailed as follows:

- we purchased pay television services amounting to $250 million (2005: $218 million) from our jointly controlled entity FOXTEL. The purchases were to enable the resale of FOXTEL services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we made sales for our cost recoveries from FOXTEL of $77 million (2005: $55 million); and
- purchases were made by the Telstra Group of $198 million (2005: $226 million) and Telstra Entity of $192 million (2005: $192 million) from our jointly controlled entity Reach Ltd (Reach) in line with market prices. These were for both the purchase of, and entitlement to, capacity and connectivity services. Sales were made for international inbound call termination services, construction and consultancy by the Telstra Group of $61 million (2005: $71 million) and the Telstra Entity of $52 million (2005: $62 million) to Reach.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

Transactions involving our jointly controlled and associated entities (continued)

(b) Loans provided to jointly controlled and associated entities relates mainly to loans provided to Reach Ltd (Reach) of $210 million (2005: $204 million) and the 3GIS Partnership (3GIS) of $14 million (2005: $32 million).

Previously, the Telstra Entity and co-shareholder PCCW Limited (PCCW) bought out a loan facility owed to a banking syndicate by Reach Finance Ltd, a controlled entity of our 50% jointly controlled entity Reach. Our share of the acquisition cost of the loan was US$155.5 million, which was recognised as a receivable at the date of the transaction. During fiscal 2005, we restructured our arrangements with Reach. As a result, the terms of maturity were altered such that the facility is now an interest free loan and repayable on or after 31 December 2010 upon the giving of 6 months notice by both PCCW and us. We have provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

During fiscal 2005, we formed the jointly controlled entity 3GIS, together with Hutchison 3G Australia Pty Ltd (H3GA), to jointly own and operate H3GA's existing 3G radio access network and fund future network development. We provided interest free funding to 3GIS for operational expenditure purposes. As a result, we have recognised our share of the loan outstanding by 3GIS amounting to $14 million (2005: $32 million).

Transactions involving other related entities

Post-employment benefits

As at 30 June 2006, Telstra Super owned 12,881,343 (2005: 13,280,885) shares in Telstra Corporation Limited at a cost of $56 million (2005: $67 million) and a market value of $47 million (2005: $67 million). In fiscal 2006, we paid dividends to Telstra Super of $4 million (2005: $5 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee for Telstra Super.

Telstra Super also holds bonds issued by Telstra Corporation Limited. As at 30 June 2006, Telstra Super holds bonds with a cost of $9 million (2005: $13 million) and a market value of $9 million (2005: $12 million).

All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

Key management personnel (KMP)

Our KMP consists of the Telstra Entity non executive directors and certain senior executives who form part of the chief executive officer's senior leadership team. Our KMP have authority and responsibility for planning, directing and controlling the activities of the Telstra Group.

Compensation to our KMP

The compensation of each individual director and senior executive defined as a KMP including our compensation policy are discussed in note 32.

Other transactions with our KMP and their related entities

Our KMP have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The KMP related entities also have telecommunications services with us on normal commercial terms and conditions.

Our KMP are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to our KMP without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered that this provides a benefit to a KMP, it is included in their compensation. Refer note 32 for compensation details.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

KMP interests in shares of Telstra Entity

During fiscal 2006, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2005	Directshare allocation (a)	Equity instruments exercised	Shares acquired or disposed of by other means	Total shares held at 30 June 2006 (b)	Shares that are held nominally
	Number	Number	Number	Number	Number	Number
Directors						
Donald G McGauchie	41,445	16,196	-	-	57,641	55,775
John T Ralph (b)	105,641	-	-	-	105,641	104,641
Solomon D Trujillo	-	-	-	-	-	-
Zygmunt E Switkowski (b)	155,810	-	-	-	155,810	109,010
Anthony J Clark (b)	83,026	-	-	-	83,026	73,026
John E Fletcher (b)	52,934	9,870	-	-	62,804	61,567
Belinda J Hutchinson	67,107	5,870	-	1,801	74,778	35,866
Catherine B Livingstone	39,734	6,104	-	10,000	55,838	44,201
Charles Macek	44,005	6,571	-	-	50,576	50,576
John W Stocker	109,657	7,374	-	-	117,031	114,078
Peter Willcox	10,000	-	-	-	10,000	10,000
John Zeglis	-	-	-	-	-	-
	709,359	51,985	-	11,801	773,145	658,740
Senior executives						
Bruce Akhurst	62,491	-	125,900	(150,532)	37,859	32,979
Kate McKenzie	-	-	-	-	-	-
David Moffatt	3,700	-	147,300	-	151,000	3,100
Deena Shiff	14,480	-	36,800	(36,800)	14,480	8,800
John Stanhope	10,940	-	46,800	3,441	61,181	3,960
David Thodey	18,262	-	51,000	(5,000)	64,262	800
Gregory Winn	-	-	-	-	-	-
	109,873	-	407,800	(188,891)	328,782	49,639
	819,232	51,985	407,800	(177,090)	1,101,927	708,379

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2006 were on an arm's length basis at market price.

(a) Shares provided to directors under directshare are subject to a restriction period. The participating directors are not able to deal in the shares until the end of the restriction period, refer to note 31 for further details.

(b) During fiscal 2006, certain directors resigned or retired from office. For these KMP, the number of shares represent those held at the date of leaving office.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

KMP interests in shares of Telstra Entity (continued)

During fiscal 2005, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2004	Directshare allocation (a)	Shares acquired or disposed of by other means	Total shares held at 30 June 2005	Shares that are held nominally
	Number	Number	Number	Number	Number
Directors					
Donald G McGauchie	34,328	7,117	-	41,445	41,445
John T Ralph	101,943	3,698	-	105,641	104,641
Zygmunt E Switkowski	155,810	-	-	155,810	109,010
Anthony J Clark	89,196	2,523	(8,693)	83,026	73,026
John E Fletcher	48,060	4,874	-	52,934	52,934
Belinda J Hutchinson	64,948	2,159	-	67,107	29,996
Catherine B Livingstone	37,191	2,543	-	39,734	29,334
Charles Macek	41,462	2,543	-	44,005	44,005
John W Stocker.	101,534	8,123	-	109,657	108,857
	674,472	33,580	(8,693)	699,359	593,248
Senior executives					
Bruce Akhurst	62,491	-	-	62,491	54,711
Douglas Campbell.	37,200	-	-	37,200	27,500
David Moffatt	3,700	-	-	3,700	3,100
Ted Pretty.	2,400	-	-	2,400	2,400
Michael Rocca	12,000	-	-	12,000	-
Bill Scales	9,916	-	-	9,916	1,400
Deena Shiff	14,480	-	-	14,480	8,800
John Stanhope.	10,940	-	-	10,940	3,960
David Thodey.	18,262	-	-	18,262	5,800
	171,389	-	-	171,389	107,671
	845,861	33,580	(8,693)	870,748	700,919

Total shareholdings include shares held by the KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2005 were on an arm's length basis at market price.

(a) Shares provided to directors under directshare are subject to a restriction period. The participating directors are not able to deal in the shares until the end of the restriction period, refer to note 31 for further details.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

KMP interests in equity instruments of Telstra Entity

The following details the balances and changes in instruments issued for our KMP and their related entities during fiscal 2006.

Instrument type director/senior executive	Total held at 30 June 2005 Number	Granted during the year Number	Exercised during the year Number	Other changes (a) Number	Total held at 30 June 2006 (b) Number	Vested and exercisable at 30 June 2006 Number	Vested during the year Number
Performance rights							
Solomon D Trujillo	-	836,821	-	-	836,821	-	-
Bruce Akhurst	473,600	147,240	(59,000)	(66,900)	494,940	-	-
Kate McKenzie	36,000	55,576	-	-	91,576	-	-
David Moffatt	521,600	149,750	(71,000)	(76,300)	524,050	-	-
Deena Shiff	151,600	100,420	(17,000)	(19,800)	215,220	-	-
John Stanhope	290,000	129,666	(23,000)	(23,800)	372,866	-	-
David Thodey	427,200	136,068	(51,000)	(59,000)	453,268	-	-
Restricted shares							
Bruce Akhurst	39,000	-	-	(39,000)	-	-	-
David Moffatt	40,000	-	-	(40,000)	-	-	-
Deena Shiff	5,000	-	-	(5,000)	-	-	-
John Stanhope	14,000	-	-	(14,000)	-	-	-
Options							
Bruce Akhurst	805,000	-	-	(188,000)	617,000	617,000	-
David Moffatt	890,000	-	-	(150,000)	740,000	740,000	-
Deena Shiff	202,200	-	-	(24,200)	178,000	178,000	-
John Stanhope	310,000	-	-	(69,000)	241,000	241,000	-
David Thodey	534,000	-	-	-	534,000	534,000	-
Incentive shares							
Bruce Akhurst	-	109,540	-	11,427	120,967	-	-
Kate McKenzie	-	17,119	-	1,786	18,905	-	-
David Moffatt	-	51,946	-	5,419	57,365	-	-
Deena Shiff	-	61,747	-	6,441	68,188	-	-
John Stanhope	-	50,241	-	5,241	55,482	-	-
David Thodey	-	43,139	-	4,500	47,639	-	-
Deferred shares							
Bruce Akhurst	135,300	-	(66,900)	-	68,400	-	66,900
David Moffatt	152,400	-	(76,300)	-	76,100	-	76,300
Deena Shiff	42,300	-	(19,800)	-	22,500	-	19,800
John Stanhope	73,200	-	(23,800)	-	49,400	-	23,800
David Thodey	121,600	-	-	-	121,600	59,000	59,000
TESOP97							
Bruce Akhurst	2,500	-	-	-	2,500	-	-
John Stanhope	2,500	-	-	-	2,500	-	-
TESOP99							
Bruce Akhurst	400	-	-	-	400	-	-
Deena Shiff	400	-	-	-	400	-	-
John Stanhope	400	-	-	-	400	-	-

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

KMP interests in equity instruments of Telstra Entity (continued)

(a) During fiscal 2006, other changes for our performance rights, restricted shares and options are a result of instruments expiring due to the specified performance hurdles not being achieved.

Other changes for incentive shares relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentives shares will increase the number of Telstra shares allocated to the senior executive when the vested incentive shares are exercised.

(b) For those KMP that have resigned or retired during fiscal 2006, the number of equity instruments represent those instruments held at the date of leaving office.

Equity instruments held by the former chief executive officer

Dr Switkowski ceased employment with the Company effective 1 July 2005. The number of equity instruments held by Dr Switkowski at the date of leaving office were:

	Holding as at 1 July 2005
	Number
Performance rights	**1,643,600**
Restricted shares	**96,000**
Options	**1,810,000**
Deferred shares	**500,700**
TESOP97	**2,500**
TESOP99	**400**

Upon ceasing employment, the deferred shares allocated to Dr Switkowski vested and became immediately exercisable, and as such were included in fiscal 2006 compensation. In addition, the TESOP97 shares were exercised during fiscal 2006.

Other equity instruments held by Dr Switkowski were not exercised. These equity instruments are subject to performance hurdles and may become exercisable during future reporting periods.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

KMP interests in equity instruments of Telstra Entity (continued)

The following table details the balances and changes in equity instruments issued under our employee share plans for our KMP and their related entities during fiscal 2005.

Instrument type director/senior executive	Total held at 30 June 2004 Number	Granted during the year Number	Other changes (a) Number	Total held at 30 June 2005 Number	Vested and exercisable at 30 June 2005 Number	Vested during the year Number
Performance rights						
Zygmunt E Switkowski	1,259,400	513,200	(129,000)	1,643,600	129,000	129,000
Bruce Akhurst	388,600	144,000	(59,000)	473,600	59,000	59,000
Douglas Campbell	388,600	131,600	(59,000)	461,200	59,000	59,000
David Moffatt	446,200	146,400	(71,000)	521,600	71,000	71,000
Ted Pretty	446,200	146,400	-	592,600	-	-
Michael Rocca	251,200	115,000	(25,000)	341,200	25,000	25,000
Bill Scales	210,400	106,400	(21,000)	295,800	21,000	21,000
Deena Shiff	118,600	50,000	(17,000)	151,600	17,000	17,000
John Stanhope	192,400	120,600	(23,000)	290,000	23,000	23,000
David Thodey	345,200	133,000	(51,000)	427,200	51,000	51,000
Restricted shares						
Zygmunt E Switkowski	146,000	-	(50,000)	96,000	-	-
Bruce Akhurst	60,000	-	(21,000)	39,000	-	-
Douglas Campbell	68,000	-	(26,000)	42,000	-	-
David Moffatt	40,000	-	-	40,000	-	-
Ted Pretty	21,000	-	(21,000)	-	-	-
Michael Rocca	22,000	-	(9,000)	13,000	-	-
Bill Scales	5,000	-	-	5,000	-	-
Deena Shiff	5,000	-	-	5,000	-	-
John Stanhope	25,000	-	(11,000)	14,000	-	-
Options						
Zygmunt E Switkowski	3,456,000	-	(1,646,000)	1,810,000	1,346,000	1,346,000
Bruce Akhurst	1,542,000	-	(737,000)	805,000	617,000	617,000
Douglas Campbell	1,597,000	-	(777,000)	820,000	617,000	617,000
David Moffatt	1,630,000	-	(740,000)	890,000	740,000	740,000
Ted Pretty	1,722,000	-	(120,000)	1,602,000	-	-
Michael Rocca	640,000	-	(315,000)	325,000	262,000	262,000
Bill Scales	465,000	-	(220,000)	245,000	220,000	220,000
Deena Shiff	380,200	-	(178,000)	202,200	178,000	178,000
John Stanhope	616,000	-	(306,000)	310,000	241,000	241,000
David Thodey	1,068,000	-	(534,000)	534,000	534,000	534,000
Deferred Shares						
Zygmunt E Switkowski	500,700	-	-	500,700	-	-
Bruce Akhurst	135,300	-	-	135,300	-	-
Douglas Campbell	135,300	-	-	135,300	-	-
David Moffatt	152,400	-	-	152,400	-	-
Ted Petty	155,100	-	-	155,100	-	-
Michael Rocca	100,600	-	-	100,600	-	-
Bill Scales	84,200	-	-	84,200	-	-
Deena Shiff	42,300	-	-	42,300	-	-
John Stanhope	73,200	-	-	73,200	-	-
David Thodey	121,600	-	-	121,600	-	-

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

KMP interests in equity instruments issued from Growthshare (continued)

The following table details the balances and changes in equity instruments issued from Growthshare for our KMP and their related entities during fiscal 2005 (continued).

Instrument type director/senior executive	Total held at 30 June 2004 Number	Granted during the year Number	Other changes (a) Number	Total held at 30 June 2005 Number	Vested and exercisable at 30 June 2005 Number	Vested during the year Number
TESOP97						
Zygmunt E Switkowski	2,500	-	-	2,500	-	-
Bruce Akhurst	2,500	-	-	2,500	-	-
Douglas Campbell	2,500	-	-	2,500	-	-
Michael Rocca	2,500	-	-	2,500	-	-
John Stanhope	2,500	-	-	2,500	-	-
TESOP99						
Zygmunt E Switkowski	400	-	-	400	-	-
Bruce Akhurst	400	-	-	400	-	-
Douglas Campbell	400	-	-	400	-	-
Deena Shiff	400	-	-	400	-	-
John Stanhope	400	-	-	400	-	-

(a) Other changes have arisen in fiscal 2005 as a result of instruments lapsing due to the specified performance hurdles not being achieved.

Notes to the Financial Statements (continued)

34. 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 and Telstra Entity 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.

35. Financial and capital risk management

Financial risk factors

We undertake transactions in a range of financial instruments including:

- cash assets;
- receivables;
- payables;
- deposits;
- bills of exchange and commercial paper;
- listed investments and investments in other corporations;
- various forms of borrowings, including medium term notes, commercial paper, bank loans and private placements; and
- derivatives.

Our activities result in exposure to a number of financial risks, including market risk (interest rate risk, foreign currency risk and other price risk), credit risk, operational risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance. Risk management is carried out centrally by our Treasury department, which is part of our Finance and Administration business unit, under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

We enter into derivative transactions in accordance with Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward foreign currency contracts.

We do not speculatively trade in derivative instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

Comparatives

We have elected to apply the exemption available under AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" (AASB 1) to apply AASB132: “Financial Instruments: Disclosure and Presentation” and AASB 139: “Financial Instruments: Recognition and Measurement” from 1 July 2005. Accordingly, we have changed our accounting policies for financial instruments from 1 July 2005. We have elected to early adopt AASB 7: “Financial Instruments: Disclosures” from 1 July 2005. AASB 7 supersedes the disclosure requirements, but not the presentation requirements of AASB 132. The early adoption of AASB 7 did not require comparative information for fiscal 2005 to be restated and disclosed.

Risks and mitigation

The risks associated with our main financial instruments and our policies for minimising these risks are detailed below.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Components of market risk to which we are exposed are discussed below.

(i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities that we use. Non-derivative interest-bearing assets are predominantly short term liquid assets. Our interest rate liability risk arises primarily from long term foreign debt issued at fixed rates which exposes us to fair value interest rate risk. Our borrowings which have a variable interest rate attached give rise to cash flow interest rate risk.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

Our debt is sourced from a number of financial markets covering domestic and offshore, short term and long term funding. The majority of our debt consists of foreign currency denominated borrowings. We manage our debt in accordance with targeted currency, interest rate, liquidity, and debt portfolio maturity profiles. Specifically, we manage interest rate risk on our net debt portfolio by:

- controlling the proportion of fixed to variable rate positions in accordance with target levels;
- ensuring access to diverse sources of funding;
- reducing risks of refinancing by establishing and managing in accordance with target maturity profiles; and
- undertaking hedging activities through the use of derivative instruments.

We manage the interest rate exposure on our net debt portfolio to adjust the ratio of fixed interest debt to variable interest debt to our target rates, as required by our debt management policy. Where the actual interest rate profile on the physical debt profile differs substantially from our desired target, we use derivatives, principally interest rate swaps, to adjust towards the target net debt profile. Under the interest rate swaps we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

We hedge interest rate and currency risk on most of our foreign currency borrowings by entering into cross currency principal swaps and interest rate swaps when required, which have the economic effect of converting foreign currency borrowings to Australian dollar borrowings.

The ‘Derivative financial instruments and hedging activities’ contained in this note provides further information.

The exposure to interest rate changes and the contractual repricing timeframes at 30 June 2006 on our floating rate financial instruments, which do not have offsetting risk positions, are shown in Table A below. These instruments also include cross currency swaps used to hedge our net foreign investments.

Table A	Contractual repricing dates Notional / Principal amounts	
	6 months or less	
	Telstra Group As at 30 June 2006 $m	Telstra Entity As at 30 June 2006 $m
Floating rate instruments		
Financial assets		
Cash at bank	**181**	**32**
Bills of exchange and commercial paper	**451**	**387**
Cross currency swaps	**511**	**511**
Financial liabilities		
Bills of exchange and commercial paper	**1,457**	**1,457**
Interest rate swaps	**450**	**450**
Cross currency swaps	**5,246**	**5,246**
Bank loans	**111**	**110**

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rates on our fixed and floating rate financial instruments which do not have offsetting risk positions are shown in Table B below. Foreign interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset, resulting in a nil net foreign interest position.

Accordingly, apart from some foreign borrowings and cross currency swaps which are used to hedge our net foreign investments, only the Australian interest rate positions are included in the table below.

Table B

		Telstra Group			Telstra Entity		
		As at 30 June 2006			As at 30 June 2006		
			Interest rate range			Interest rate range	
	Note	Average rate (a) %	From %	To %	Average rate (a) %	From %	To %
Australian dollar interest rates							
Fixed rate instruments							
Financial liabilities							
Interest rate swaps		6.47	5.60	7.66	6.47	5.60	7.66
Cross currency swaps		6.69	6.25	7.05	6.69	6.25	7.05
Telstra bonds		7.21	6.48	12.60	7.21	6.48	12.60
Finance lease liabilities		9.33	7.56	10.50	7.56	7.56	7.56
Deferred cash settlements		12.40	12.00	12.90	-	-	-
Floating rate instruments							
Financial assets							
Cash and cash equivalents		5.87	5.75	5.93	5.87	5.75	5.93
Cross currency swaps		5.89	5.89	5.89	5.89	5.89	5.89
Financial liabilities							
Bills of exchange and commercial paper		5.68	5.65	5.73	5.68	5.65	5.73
Interest rate swaps		6.21	5.34	7.71	6.21	5.34	7.71
Cross currency swaps		6.67	5.88	7.49	6.67	5.88	7.49
Bank loans		5.82	5.80	5.85	5.82	5.80	5.85
Foreign currency interest rates							
Fixed rate instruments							
Financial liabilities							
Other loans (c)		7.11	7.03	7.19	7.11	7.03	7.19
Floating rate instruments							
Financial liabilities							
Bills of exchange and commercial paper (c)		7.48	7.44	7.54	7.48	7.44	7.54
Cross currency swaps - Hong Kong dollar (c)		4.61	4.60	4.62	4.61	4.60	4.62
Financial assets							
Cash at bank		5.00	0.16	7.25	-	-	-

(a) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate.

(b) The effective yield (effective interest rate) on our net debt at 30 June 2006 was 6.85% for the Telstra Group and 6.51% for the Telstra Entity.

(c) Used to hedged our net foreign investments.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

Table C shows the effect on profit and equity after tax as at 30 June 2006 if interest rates at that date had been 10 per cent higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges. Concurrent movements in interest rates and parallel shifts in the yield curves is assumed.

Also included in Table C is the effect on finance costs on our floating rate instruments if interest rates had been 10 per cent higher or lower during the year.

A sensitivity of 10 per cent has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10 per cent sensitivity would move short term interest rates from around 6.25% to 6.875% representing a 62.5 basis points shift. This would represent two to three rate increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

It should be noted that the results reflect the net impact on a hedged basis which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from the cross currency and interest rate swap hedges and therefore it is the movement in the Australian dollar interest rates which is the important assumption in this sensitivity analysis.

The impact of the sensitivity analysis on finance costs is due to two factors, the impact on interest expense being incurred on our net floating rate Australian dollar positions during the year and the ineffectiveness resulting from the change in fair value of both our derivatives and borrowings which are designated in a fair value hedge. These two factors offset each other as the ineffective component results in a gain and the increase in finance costs results in an increase in expense. The net impact on net profit is relatively small reflecting the hedge strategy adopted by Telstra in terms of repricing risk.

Table C	Telstra Group			Telstra Entity		
	As at 30 June 2006			As at 30 June 2006		
	Finance costs $m	Net profit $m	Equity (Cash flow hedging reserve) $m	Finance costs $m	Profit before income tax $m	Equity (Cash flow hedging reserve $m
If interest rates were 10 per cent higher with all other variables held constant - increase/(decrease)	8	(8)	29	8	(8)	29
If interest rates were 10 per cent lower with all other variables held constant - increase/(decrease)	(8)	8	(29)	(8)	8	(29)

(ii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, recognised asset or liability will fluctuate due to changes in foreign currency rates. Our foreign currency exchange risk arises primarily from:

- borrowings denominated in foreign currencies;
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies; and
- net investments in foreign operations.

We are exposed to foreign exchange risk from various currency exposures, primarily with respect to:

- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Euro;
- Swiss francs;
- Hong Kong dollars;
- Japanese yen;
- Swedish krona; and
- Singapore dollar.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

(a) Market risk (continued)

(ii) Foreign currency risk (continued)

Our economic foreign currency risk is assessed for each individual currency and for each hedge type, calculated by aggregating the net exposure for that currency for that hedge type.

We minimise our exposure to foreign currency risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where this is not possible we manage our exposure as follows.

Foreign exchange risk that arises from firm commitments or highly probable transactions are managed principally through the use of forward foreign currency derivatives. We hedge a proportion of these transactions (such as international telecommunications traffic transactions settled in foreign currencies) in each currency in accordance with our risk management policy.

Cash flow foreign currency risk arises primarily from foreign currency overseas borrowings. We hedge this risk on the major part of our foreign currency denominated borrowings by effectively converting them to Australian dollar borrowings by entering into cross currency swaps at inception to maturity. A relatively small proportion of our foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore business investments.

Foreign currency risk also arises on translation of the net assets of our non-Australian controlled entities which have a different functional currency. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. We manage this translation foreign exchange risk with forward foreign currency contracts, cross currency swaps and/or borrowings denominated in the currency of the entity concerned.

Where a subsidiary hedges foreign exchange transactions it designates hedging instruments with the Treasury department as fair value hedges or cash flow hedges as appropriate. External foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions.

Also refer to 'Derivative financial instruments and hedging activities' contained in this note.

Sensitivity analysis

The following Table D shows the effect on profit and equity after tax as at 30 June 2006 from a 10 percent adverse/favourable movement in exchange rates at that date on a total portfolio basis with all other variables held constant, taking into account all underlying exposures and related hedges.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 per cent has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movement. Looking at the Australian dollar exchange rate against the United States dollar, the year end rate of 0.74235 would generate a 10 per cent adverse position of 0.6681 and a favourable position of 0.8166. This range is considered reasonable given the historic ranges that have been observed, for example over the last five years, the Australian dollar exchange rate against the US dollar has traded in the range 0.7985 to 0.4848.

Our foreign currency risk exposure from recognised assets and liabilities arises primarily from our long term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings as they are effectively hedged.

The net gain in the cash flow hedge reserve reflects the result of exchange rate movements on the derivatives held in our cash flow hedges which will be released to the income statement in the future as the underlying hedged items affect profit.

For the Telstra Group, our foreign currency translation risk associated with our foreign investments results in some volatility to the foreign currency translation reserve. The impact on the foreign currency translation reserve relates to the hedging of our net investments in New Zealand dollars and Hong Kong dollars where the notional amount hedged equates to approximately 40%. The net loss of $211 million in the foreign currency translation reserve takes into account the related hedges and represents the impact of the unhedged portion. For the Telstra Entity there is a gain of $78 million resulting from the hedging instruments used to hedge our net foreign investments. This amount is transferred to the foreign currency translation reserve in the Telstra Group.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Sensitivity analysis

Table D	Telstra Group		Telstra Entity		
	As at 30 June 2006		As at 30 June 2006		
	Equity (foreign currency translation reserve) $m	Equity (cash flow hedging reserve) $m	Net profit $m	Equity (foreign currency translation reserve) $m	Equity (cash flow hedging reserve) $m
If there was a 10% adverse movement in exchange rates with all other variables held constant - increase/(decrease)	(211)	43	78	-	41
If there was a 10% favourable movement in exchange rates with all other variables held constant - increase/(decrease)	211	(43)	(78)	-	(41)

(b) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on all financial assets included in our balance sheet. To help manage this risk:

- we have a policy for establishing credit limits for the entities we deal with;
- we may require collateral where appropriate; and
- we manage exposure to individual entities we either transact with or enter into derivative contracts with (through a system of credit limits).

The major concentrations of credit risk for the Telstra Group and the Telstra Entity arise from our transactions in money market instruments, forward foreign currency contracts, cross currency and interest rate swaps. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. We have policies that limit the amount of credit exposure to any financial institution. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with our policy requirements.

One of the methods that we use to manage the risk relating to these instruments is to monitor our exposure by country of financial institution. When reviewing concentrations of risk, we adjust for the period to maturity of relevant instruments in our portfolio to accurately consider our exposure at a point in time. On this basis, our credit risk exposure on financial assets outstanding at balance date (which includes a time based volatility allowance (VAR)) by country of financial institution is included in Table E below.

Table E	Telstra Group		Telstra Entity	
	Credit risk concentrations (VAR based)			
	As at 30 June 2006		As at 30 June 2006	
	%	$m	%	$m
Australia	34.6	1,983	35.1	1,983
United States	32.5	1,858	32.9	1,858
Japan	3.9	223	3.9	223
Europe	14.1	807	14.3	807
United Kingdom	4.0	229	4.1	229
Canada	2.3	133	2.4	133
Switzerland	7.1	409	7.2	409
Hong Kong	1.0	59	-	-
New Zealand	0.5	26	0.1	9
	100.0	5,727	100.0	5,651

Our maximum exposure to credit risk based on the recorded amounts of our financial assets reported at 30 June 2006, net of any applicable provisions for loss, amounts to $4,889 million for the Telstra Group and $4,357 million for the Telstra Entity. For the Telstra Group this comprises current financial assets of $4,411 million (Telstra Entity: $3,839 million) and non current financial assets of $478 million (Telstra Entity: $518 million). Details of our financial assets are shown in Table G. Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis.

We do not have any other significant operating exposure to any individual contracting entity.

We may also be subject to credit risk for transactions which are not included in the balance sheet, such as when we provide a guarantee for another party. Details of our contingent liabilities and contingent assets are available at note 27.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

(c) Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- generally use instruments that are tradeable in highly liquid markets; and
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid, highly liquid and liquid instruments.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

(c) Liquidity risk (continued)

The contractual maturity of our fixed and floating rate financial liabilities and derivatives at 30 June 2006 are shown in Table F below.

Table F	Telstra Group				Telstra Entity			
	As at 30 June 2006				As at 30 June 2006			
	Contractual maturity (nominal cash flows)				Contractual maturity (nominal cash flows)			
	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m
Derivative financial assets and liabilities								
Derivative financial liabilities								
Interest rate swaps - pay fixed (i)	(17)	(15)	(16)	(16)	(17)	(15)	(16)	(16)
Interest rate swaps - pay variable (i)	2	(1)	(7)	(7)	2	(1)	(7)	(7)
Cross currency swaps - AUD leg (fixed) (ii)	(18)	(18)	(54)	(316)	(18)	(18)	(54)	(316)
Cross currency swaps - AUD leg (variable) (ii)	(837)	(1,648)	(3,716)	(3,153)	(837)	(1,648)	(3,716)	(3,153)
Forward foreign currency contracts (ii)	(779)	-	-	-	(779)	-	-	-
Derivative financial assets								
Interest rate swaps - receive fixed (i)	61	39	97	56	61	39	97	56
Interest rate swaps - receive variable (i)	1	2	7	-	1	2	7	-
Cross currency swaps - foreign leg (fixed) (ii)	53	1,072	69	166	53	1,072	69	166
Cross currency swaps - foreign leg (variable) (ii)	647	359	3,351	2,724	647	359	3,351	2,724
Forward foreign currency contracts (ii)	773	-	-	-	773	-	-	-
Non-derivative financial liabilities								
Telstra bonds	(184)	(184)	(1,428)	(2,014)	(184)	(184)	(1,428)	(2,014)
Bank loans	(111)	-	-	-	(110)	-	-	-
Other loans	(866)	(1,813)	(4,656)	(4,553)	(866)	(1,813)	(4,656)	(4,553)
Finance lease liabilities	(13)	(12)	(23)	(52)	(7)	(6)	(10)	-
Bills of exchange and commercial paper	(1,490)	-	-	-	(1,490)	-	-	-
Deferred cash settlements	(123)	(10)	(29)	(283)	-	-	-	-
Non-derivative financial assets								
Bills of exchange and commercial paper	451	-	-	-	387	-	-	-

(i) net amounts for interest rate swaps for which net cash flows are exchanged.

(ii) contractual amounts to be exchanged representing gross cash flows to be exchanged.

(iii) for floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last re-pricing date.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Net fair value of our financial assets and financial liabilities

The carrying amounts and fair value of our financial assets and financial liabilities is shown in Table G below:

Table G	Telstra Group		Telstra Entity	
	As at 30 June 2006		As at 30 June 2006	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Financial assets - current				
Cash at bank and on hand	238	238	87	87
Bills of exchange and commercial paper	451	451	387	387
Trade debtors	2,421	2,421	1,771	1,771
Accrued revenue	1,027	1,027	971	971
Amounts owed by controlled entities	-	-	416	416
Other receivables	253	253	186	186
Cross currency swap hedge receivable	20	20	20	20
Forward contract asset	1	1	1	1
	4,411	4,411	3,839	3,839
Financial assets - non current				
Amounts owed by jointly controlled and associated entities	14	14	-	-
Amounts owed by controlled entities	-	-	60	60
Other receivables	73	73	67	67
Cross currency swap hedge receivable	222	222	222	222
Interest rate swap asset	169	169	169	169
	478	478	518	518
	4,889	4,889	4,357	4,357
Financial liabilities - current				
Trade creditors	738	738	586	586
Accrued interest and other accrued expenses	2,440	2,440	2,111	2,111
Other creditors	269	269	171	171
Amounts owed to controlled entities	-	-	197	197
Deferred cash settlements	123	123	-	-
Loans from wholly owned controlled entities	-	-	1,408	1,408
Bills of exchange and commercial paper	1,457	1,481	1,457	1,481
Bank loans	111	111	110	110
Other loans	394	396	394	396
Finance leases	7	7	5	5
Cross currency swap hedge payable	6	6	6	6
Forward contract liability	6	6	6	6
	5,551	5,577	6,451	6,477
Financial liabilities - non current				
Other creditors	70	70	65	65
Deferred cash settlements	127	127	-	-
Telstra bonds	2,613	2,658	2,613	2,658
Other loans	8,748	9,336	8,748	9,273
Finance leases	48	48	15	15
Cross currency hedge payable	612	612	612	612
Interest rate swap payable	156	156	156	156
	12,374	13,007	12,209	12,779
	17,925	18,584	18,660	19,256

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Net fair value of our financial assets and financial liabilities (continued)

(i) Unless there is evidence to suggest otherwise, financial assets and financial liabilities with a short term to maturity are considered to approximate net fair value.

(ii) The reported balance of our borrowings and derivative instruments excludes accrued interest which is recorded in current 'trade and other receivables' and current 'trade and other payables' in the balance sheet.

(iii) Derivative financial assets and derivative financial liabilities are carried at fair value. Fair value is based on the present value of the estimated future cash flows using an appropriate market based yield curve (also refer to note 2.27).

(iv) The fair value of the Telstra bonds is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve (refer also to note 2.27). The carrying value of Telstra bonds is at amortised cost.

(v) Other loans comprise predominantly foreign denominated debt. The difference between the fair value and carrying value arises from the mixed measurement bases where only part of the foreign currency borrowing portfolio is carried at fair value with the remaining part at amortised cost. Fair value is based on the present value of the estimated future cash flows using an appropriate market based yield curve (also refer to note 2.27).

The carrying amount of other loans are denominated in the following currencies:

Table H	**Telstra Group**	**Telstra Entity**
	Carrying value	
	As at 30 June 2006 $m	**As at 30 June 2006 $m**
Australian dollar	**245**	**245**
Euro	**6,336**	**6,336**
United States dollar	**1,028**	**1,028**
United Kingdom pound	**487**	**487**
Japanese yen	**472**	**472**
New Zealand dollar	**164**	**164**
Swiss francs	**326**	**326**
Singapore dollar	**84**	**84**
	9,142	**9,142**

(vi) During the year we incurred impairment losses on our financial assets of $163 million for the Telstra Group and $520 million for the Telstra Entity. For the Telstra Group impairment losses comprised $161 million on trade and other receivables and $2 million on amounts owed by associated entities. For the Telstra Entity impairment losses comprised $138 million on trade and other receivables and $382 million on amounts owed by controlled entities.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Derivative financial instruments and hedging activities

We hold a number of different financial instruments to hedge risks relating to underlying transactions. Our major exposure to interest rate risk and foreign currency risk arises from our long term borrowings. Details of our hedging activities are provided below.

We designate certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedges);
- hedges of foreign currency risk associated with recognised liabilities or highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedge).

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The terms and conditions in relation to our derivative instruments are similar to the terms and conditions of the underlying hedged items. During the year we discontinued hedge accounting for our British pound borrowing in a fair value hedge. There was no material impact on our income statement. All other hedging relationships were effective at the reporting date.

For further details reference should be made to note 2.26.

(a) Fair value hedges

During the period we held cross currency principal and interest rate swaps to mitigate our exposure to changes in the fair value of foreign denominated debt from fluctuations in foreign currency and interest rates. The hedged items designated were a portion of our foreign currency denominated borrowings. The changes in the fair values of the hedged items resulting from movements in exchange rates and interest rates are offset against the changes in the value of the cross currency and interest rate swaps. The objective of this hedging is to convert foreign currency borrowings to floating Australian dollar borrowings.

Gains or losses from remeasuring the fair value of the hedge instrument are recognised within 'finance costs' in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the hedged risks. This net result largely represents ineffectiveness attributable to movements in Telstra's borrowing margins. The remeasurement of the hedged items resulted in a loss before tax of $3 million (Telstra Entity: $3 million) and the changes in the fair value of the hedging instruments resulted in a gain before tax of $29 million (Telstra Entity: $29 million) resulting in a net gain before tax of $26 million (Telstra Entity: $26 million) recorded in 'finance costs' in the 2006 financial year.

The effectiveness of the hedging relationship is tested prospectively and retrospectively by means of statistical methods using a regression analysis. Regression analysis is used to analyse the relationship between the derivative instruments (the dependent variable) and the underlying borrowings (the independent variable). The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in fair values achieved by the hedge.

Refer to Table J and Table K for the value of our derivatives designated as fair value hedges at 30 June 2006.

(b) Cash flow hedges

Cash flow hedges are used to hedge exposures relating to our borrowings and our ongoing business activities, where we have highly probable purchase or settlement commitments in foreign currencies.

During the year, we entered into cross currency and interest rate swaps as cash flow hedges of future payments denominated in foreign currency resulting from our long-term overseas borrowings. The hedged items designated were a portion of the outflows associated with these foreign denominated borrowings. The objective of this hedging is to hedge foreign currency risks arising from spot rate changes and thereby mitigate the risk of payment fluctuations as a result of exchange rate movements.

We also entered into forward foreign currency contracts as cash flow hedges to hedge forecast transactions denominated in foreign currency which hedge foreign currency risk arising from spot rate changes. The hedged items comprised highly probable forecast foreign currency payments for operating and capital items.

The effectiveness of the hedging relationship relating to our borrowings is calculated prospectively and retrospectively by means of statistical methods using a regression analysis. The actual derivative instruments in a cash flow hedge are regressed against the hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Derivative financial instruments and hedging activities (continued)

(b) Cash flow hedges (continued)

The effective portion of gains or losses on remeasuring the fair value of the hedge instrument are recognised directly in equity in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to other revenue or other expenses in the income statement. In our hedge of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed asset), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement within other expenses or other revenue. During the year there was no material ineffectiveness attributable to our cash flow hedges.

If a forecast transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were deferred in equity are transferred immediately to the income statement. During the year we did not discontinue hedge accounting for forecast transactions no longer expected to occur.

During 2006, net gains totalling $229 million after tax (Telstra Entity: $229 million) resulting from the change in the fair value of derivatives were taken directly to equity in the cash flow hedge reserve. These changes constitute the effective portion of the hedging relationship. Net gains amounting to $294 million after tax (Telstra Entity: $295 million) recognised in the cash flow hedge reserve were transferred to the income statement during the year.

Refer to Table J, Table K and Table L for the value of our derivatives designated as cash flow hedges at 30 June 2006.

The following table shows the maturities of the payments, that is when the cash flows are expected to occur.

Table I	Telstra Group	Telstra Entity
	Nominal cash outflows	
	As at 30 June 2006 $m	As at 30 June 2006 $m
Highly probable forecast purchases (i)		
- less than one year	(757)	(734)
Borrowings (ii)		
- less than one year	(431)	(431)
- one to five years	(2,924)	(2,924)
- greater than five years	(1,978)	(1,978)
	(5,333)	(5,333)

(i) These amounts will affect our income statement in the same time period as the cash flows are expected to occur except for purchases of fixed assets in which case the gains and losses on the associated hedging instruments are included in the measurement of the initial cost of the asset. The hedged asset purchases affect profit as the assets are depreciated over their useful lives. Included in the forecast purchases of $757 million (Telstra Entity: $734 million) are $593 million of fixed asset purchases (Telstra Entity: $593 million).

(ii) The impact on our income statement from foreign currency translation movements associated with these hedged borrowings is expected to be nil as these borrowings are effectively hedged.

(c) Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities, including our investments in TelstraClear Limited and Hong Kong CSL Limited (CSL). This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We hedge our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Derivative financial instruments and hedging activities (continued)

(c) Hedges of net investments in foreign operations (continued)

Gains or losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent they are effective. The cumulative amount of the recognised gains or losses included in equity are transferred to the income statement when the foreign operation is sold.

Gains or losses on any portion of the hedge determined to be ineffective are recognised in the income statement within other expenses or other revenue. During the year there was no material ineffectiveness attributable to our net investment hedges.

During the year net gains of $50 million on our hedging instruments were taken directly to equity in the foreign currency translation reserve in the consolidated balance sheet.

Refer to Table J and Table L for the value of our derivatives designated as hedges of net foreign investments at 30 June 2006.

In addition, included in the carrying value of 'other loans' and 'bills of exchange and commercial paper' at 30 June 2006 are New Zealand dollar denominated borrowings of $164 million (fair value: $164 million) and New Zealand dollar denominated commercial paper of $334 million (fair value: $334 million). These were designated as a hedging instrument of our net investment in TelstraClear. The loans are included within non current financial liabilities and the commercial paper is included within current financial liabilities of the Telstra Group and the Telstra Entity. A foreign exchange gain of $58 million on translation of these borrowings and commercial paper to Australian dollars was recognised in equity in the foreign currency translation reserve in the consolidated balance sheet.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Derivative financial instruments and hedging activities (continued)

(d) Hedging instruments

Derivative hedging instruments

Details of our derivative hedging instruments as at balance date are shown in Table J, Table K and Table L below. The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Table J	Telstra Group		Telstra Entity	
	As at 30 June 2006		As at 30 June 2006	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Cross currency swaps				
Current				
Cross currency swaps - designated cash flow hedges of other loans (i)	11	-	11	-
Cross currency swaps - designated fair value hedges of other loans	9	-	9	-
Cross currency swaps - designated hedge of net foreign investment	-	6	-	6
Total	20	6	20	6
Non current				
Cross currency swaps - designated cash flow hedges of other loans (i)	53	350	53	350
Cross currency swaps - designated fair value hedges of other loans	169	259	169	259
Cross currency swaps - designated hedge of net foreign investment	-	3	-	3
Total	222	612	222	612

(i) Gains or losses recognised in the cash flow hedging reserve in equity (refer note 22) on cross currency swap contracts as at 30 June 2006 will be continuously released to the income statement until the underlying borrowings are repaid.

Table K	Telstra Group		Telstra Entity	
	As at 30 June 2006		As at 30 June 2006	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Interest rate swaps				
Non current				
Interest rate swaps - designated cash flow hedges of other loans (ii)	106	107	106	107
Interest swaps - designated fair value hedges of other loans	63	49	63	49
Total	169	156	169	156

(ii) Gains or losses recognised in the cash flow hedging reserve in equity (refer to note 22) on interest rate swap contracts as at 30 June 2006 will be continuously released to the income statement until the underlying borrowings are repaid.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Derivative financial instruments and hedging activities (continued)

(d) Hedging instruments (continued)

Derivative hedging instruments (continued)

The fair value of our net Australian dollar amounts receivable/(payable), settlement dates and average contractual forward exchange rates are as follows:

Table L	Telstra Group		Telstra Entity	
	As at 30 June 2006		As at 30 June 2006	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Forward foreign currency contracts				
United States (US) dollars - designated as cash flow hedges: highly probable purchases				
- less than 3 months, at contractual forward exchange rates averaging United States dollars 0.7328	-	2	-	2
- 3 to 12 months, at contractual forward exchange rates averaging United States dollars 0.7347	-	2	-	2
	-	4	-	4
New Zealand (NZ) dollars - designated as hedge: net foreign investment				
- 3 than 12 months, at contractual forward exchange rates averaging New Zealand dollars 1.1946	-	2	-	2
Hong Kong (HK) dollars - designated as hedge: net foreign investment				
- 3 to 12 months, at contractual forward exchange rates averaging Hong Kong dollars 5.7248	1	-	1	-
Total	1	6	1	6

(i) Gains or losses recognised in the cash flow hedging reserve in equity (refer to note 22) on forward foreign exchange contracts as at 30 June 2006 will be released to the income statement at dates when the cash flow from the underlying forecast transactions will occur. However, where the underlying forecast transaction is a purchase of a non-financial asset (for example, inventory or a fixed asset) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date the asset is recognised.

(ii) Other forward exchange contracts which are not included in the above designated hedging relationships have been entered into to hedge exposure of other payables and receivables recognised in the balance sheet. These balances are not significant.

Notes to the Financial Statements (continued)

35. Financial and capital risk management (continued)

Derivative financial instruments and hedging activities (continued)

Breaches

During the year we have not breached any of our agreements with our lenders.

Capital Risk Management

Our objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'derivative financial instruments' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

During 2006, our strategy was to maintain the net debt gearing ratio within 55 to 75 per cent, in order to secure access to finance at a reasonable cost.

The gearing ratios at 30 June 2006 were as follows:

	Telstra Group As at 30 June 2006 $m	Telstra Entity As at 30 June 2006 $m
Total borrowings	13,746	14,642
less cash and cash equivalents	(689)	(474)
Net debt	13,057	14,168
Total equity	12,832	12,115
Total capital	25,889	26,283
Gearing ratio	50.4%	53.9%

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards

We are required by the Corporations Act 2001 to prepare our 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 year ended 30 June 2005. Most of the adjustments on transition were required to be made to opening retained profits at the beginning of the first comparative period (i.e. at 1 July 2004).

Amendments to A-IFRS transition adjustments disclosed at 31 December 2005

We have made certain amendments to the impacts of adopting A-IFRS on the Telstra Group disclosed at 31 December 2005. These amendments are set out below.

(i) 3G spectrum licence

Under previous Australian Generally Accepted Accounting Principles (AGAAP) we expensed the annual payments made under our Hong Kong 3G spectrum licence as incurred, except for those incurred during the construction of our 3G network in Hong Kong which were capitalised as part of the asset cost.

Based on the IFRS interpretation adopted by other 3G mobile operators in Hong Kong, on transition we have recorded an intangible asset of $121 million (30 June 2005: $108 million) associated with our Hong Kong 3G spectrum licence. This includes $25 million (30 June 2005: $24 million) previously capitalised under AGAAP as part of property, plant and equipment. A corresponding accrual liability has also been recorded.

This intangible asset is amortised over the term of the licence agreement. Net profit before tax has increased by $4 million for the year ended 30 June 2005 due to this additional amortisation and the unwinding of the present value discount on the accrual, partially offset by the elimination of the licence expense. For further details refer to note 36(k).

The recognition of this spectrum licence has resulted in a reduction in the deferred tax liability of the Telstra Group as at 1 July 2004 of $21 million (30 June 2005: $19 million).

(ii) Determination of tax bases

The tax base of our defined benefit asset changed as a result of an interpretation on the treatment of the contribution tax adjustment made to the carrying value of the asset. As a result there was an increase to the deferred tax liability associated with the defined benefit asset on transition of $24 million (30 June 2005: $11 million).

In addition, we reduced the deferred tax asset of one of our controlled entities due to the reassessment of the tax base of certain items of property, plant and equipment on transition by $28 million (30 June 2005: $29 million).

For further details refer to note 36(c).

(iii) Operating leases

Under A-IFRS operating lease rental expense is recognised on a straight line basis over the term of the lease, even if the payments are not on that basis. Under previous AGAAP operating lease rentals were expensed as incurred. This has resulted in the recognition of an additional non-current liability on transition to A-IFRS of $37 million (30 June 2005: $48 million). Operating lease expense increased by $11 million for the year ended 30 June 2005. Refer to note 36(e) for further details.

A-IFRS adjustments with effect from 1 July 2004

(a) AASB 2: "Share-Based Payment" (AASB 2)

Under previous AGAAP we recognised an expense for all restricted shares, performance rights, deferred shares and Telstra shares (consisting of "directshares" and "ownshares") issued. This expense was equal to the funding provided to the Telstra Growthshare Trust (Growthshare) to purchase Telstra shares on market to underpin these equity instruments, and was recognised in full in the income statement when the funding was provided. Under previous AGAAP, we did not recognise an expense for options issued on the basis that instrument holders are required to pay the option exercise price once the options vest and are exercised.

Under AASB 2, we recognise an expense for all share-based remuneration. This expense is based on the fair value of the equity instruments issued, determined at the grant date. The fair value is calculated using an appropriate valuation technique to estimate the price of those equity instruments in an arm's length transaction between knowledgeable, willing parties. The fair value calculated is charged against profit over the relevant vesting period, adjusted to reflect actual and expected levels of vesting.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(a) AASB 2: "Share-Based Payment" (AASB 2) (continued)

Under the transitional exemptions of AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" (AASB 1), we elected not to apply AASB 2 to equity instruments granted prior to 7 November 2002.

This approach gave rise to a net positive transitional adjustment to retained profits. If we had not made this election, resulting in all equity instruments granted prior to 7 November 2002 being subject to AASB 2, then opening retained profits on transition would decrease, with a corresponding increase in share capital.

Furthermore, there would have been an increase in labour expense for the year ended 30 June 2005. Equity instruments granted prior to 7 November 2002, for which we have elected not to apply AASB 2, include those granted under Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99), as well as certain Growthshare issues.

We own 100% of the equity of Telstra Growthshare Pty Ltd and the Telstra ESOP Trustee Pty Ltd, the corporate trustees for the Telstra Growthshare Trust (Growthshare), TESOP97 and TESOP99, which administer our share-based payment plans. Under previous AGAAP we did not control or significantly influence these trusts, as beneficial ownership and control remained with the employees who participate in the share plans, administered by the Trustee on their behalf.

Under A-IFRS, we have included the results, position and cash flows of Growthshare, TESOP97 and TESOP99 within our financial statements.

(i) On transition as at 1 July 2004

To record the initial recognition of Growthshare within the Telstra Group and Telstra Entity, the loan receivable from Growthshare was eliminated ($65 million), share capital reduced to reflect the shares held by Growthshare in the Telstra Entity ($117 million), and the cash held by Growthshare was recognised ($3 million).

Other assets and liabilities held by the trusts were considered insignificant to Telstra Group and Telstra Entity.

Shares issued under TESOP97 and TESOP99, in conjunction with the non-recourse loans, have been accounted for as options. As a result, the outstanding balance of the loans to employees under TESOP97 and TESOP99 amounting to $174 million (comprising $24 million current receivables and $150 million non current receivables), was deducted from share capital of the Telstra Group and Telstra Entity on transition to A-IFRS.

A transitional adjustment to increase Telstra Group and Telstra Entity opening retained profits by $55 million represents the reversal of the expense previously recorded under AGAAP. We also recognised a transitional expense in retained profits under AASB 2 of $4 million relating to the amortisation over the vesting period of equity instruments issued subsequent to 7 November 2002. This transitional expense increased share capital by $4 million.

(ii) At 30 June 2005

The cumulative effect on the Telstra Group and Telstra Entity at 30 June 2005 was to increase cash assets by $8 million, decrease current receivables by $24 million, non current receivables by $175 million, and share capital by $257 million. Labour expense decreased by $10 million, finance income decreased by $2 million, and dividends decreased by $7 million for the year ended 30 June 2005.

(b) AASB 3: "Business Combinations" (AASB 3)

We previously amortised goodwill over the period of expected benefit, not exceeding 20 years. Under A-IFRS goodwill acquired in a business combination is not amortised, but instead is subject to impairment testing at each reporting date, or upon the occurrence of triggers that may indicate a potential impairment. If there is an indication of impairment resulting in an impairment loss, it is recognised immediately in the income statement.

Under the transitional arrangements of AASB 1 we had the option of applying AASB 3 prospectively from the transition date to A-IFRS (from 1 July 2004). We chose this option rather than to restate all previous business combinations. If this election had not been made, there would not have been a significant impact on the balance sheet or income statement because our accounting for significant business combinations under previous AGAAP was consistent with A-IFRS and USGAAP, whereby we recognised all identifiable assets and liabilities upon acquisition, including intangible assets.

The impact of AASB 3 and associated transitional arrangements is as follows:

- all prior business combination accounting was frozen as at 1 July 2004; and
- the value of goodwill was frozen as at transition date, with any amortisation that was reported under previous AGAAP subsequent to transition date was reversed for A-IFRS restatements.

(i) On transition as at 1 July 2004

There were no adjustments on transition as a result of AASB 3.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(b) AASB 3: "Business Combinations" (AASB 3) (continued)

(ii) At 30 June 2005

The effect on the Telstra Group at 30 June 2005 of the cessation of amortisation of goodwill was to increase goodwill and decrease amortisation expense by $145 million (Telstra Entity: $4 million). Investments accounted for using the equity method increased by $2 million for the Telstra Group, with a corresponding decrease in share of net loss from jointly controlled and associated entities.

(c) AASB 112: "Income Taxes" (AASB 112)

On transition to A-IFRS, a new method of accounting for income taxes, known as the "balance sheet approach", was adopted, replacing the "income statement approach" required by previous AGAAP. Under the new method we generally recognise deferred tax balances in the balance sheet when there is a difference between the carrying value of an asset or liability and its tax base.

The adoption of the “balance sheet approach” has resulted in a number of additional deferred tax balances being recognised, as well as adjustments to existing deferred tax balances. Furthermore, additional deferred tax liabilities have been recognised associated with fair value adjustments on entities acquired by us. Where the acquisition has occurred after 1 July 2004 a corresponding adjustment has been made to goodwill in accordance with AASB 3.

The Telstra Entity has formed a tax consolidated group with its Australian resident wholly owned subsidiaries. Under previous AGAAP the Telstra Entity, as head entity of the tax consolidated group, recognised tax balances for all entities in the group.

Under A-IFRS and in accordance with UIG 1052 “Tax Consolidation Accounting” (UIG 1052), the Telstra Entity only accounts for its own tax balances, with the exception of the following:

- the current tax liability for the tax consolidated group; and
- the current and deferred tax arising from unused tax losses and tax credits for all entities in the tax consolidated group.

Under UIG 1052, the current tax liability of the tax consolidated group is required to be allocated to each of the entities in the group. As there was no tax funding arrangement in place at 30 June 2005, this allocation was recorded as a contribution by or distribution to the Telstra Entity.

(i) On transition as at 1 July 2004

The Telstra Group and Telstra Entity’s deferred tax liabilities decreased as a result of the transition to other A-IFRS standards. The transition adjustment comprised:

	Note	Telstra Group $m	Telstra Entity $m
Operating leases	36 (e)	(11)	(11)
Defined benefit asset	36 (f)	159	158
Borrowing costs	36 (h)	(129)	(129)
3G spectrum licence	36 (k)	(21)	-
Handset subsidies	36 (k)	(72)	(72)
Net decrease in deferred tax liabilities		(74)	(54)

A corresponding increase in opening retained profits was recorded as a result of these adjustments.

In addition, there was a transitional adjustment to deferred tax liabilities as a result of the change in accounting for income taxes to the balance sheet approach, and the adoption of UIG 1052. This adjustment consisted of:

	Telstra Group $m	Telstra Entity $m
Tax base differences on buildings	77	77
Tax effect of fair value adjustments on entities acquired by us	66	-
Adoption of UIG 1052	-	329
Adjustments to plant and equipment and other temporary differences	(105)	(104)
Net increase in deferred tax liabilities	38	302

For the Telstra Group opening retained profits decreased by $6 million (Telstra Entity: $142 million), and the asset revaluation reserve reduced by $32 million (Telstra Entity: $83 million) as a result of these entries. Furthermore, the balance of investments recorded by the Telstra Entity increased by $77 million.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(c) AASB 112: "Income Taxes" (AASB 112) (continued)

(ii) At 30 June 2005

The Telstra Group and Telstra Entity's deferred tax liabilities decreased as a result of the impact of other A-IFRS standards as at 30 June 2005. This adjustment consisted of:

	Note	Telstra Group $m	Telstra Entity $m
Deferred payment for equipment	36 (d)	(8)	-
Operating leases	36 (e)	(14)	(14)
Defined benefit asset	36 (f)	79	79
Borrowing costs	36 (h)	(129)	(129)
3G spectrum licence	36 (k)	(19)	-
Handset subsidies	36 (k)	(91)	(91)
Net decrease in deferred tax liabilities		(182)	(155)

The Telstra Group and Telstra Entity retained profits increased by $24 million due to the tax effect of the defined benefit actuarial loss. Telstra Group tax expense for the year ended 30 June 2005 decreased by $84 million (Telstra Entity: $77 million).

In addition, an adjustment to deferred tax liabilities was attributable to the change in accounting for income taxes to the balance sheet approach and the adoption of UIG 1052. This adjustment consisted of:

	Telstra Group $m	Telstra Entity $m
Tax base differences on buildings	74	74
Tax effect of fair value adjustments on entities acquired by us	104	-
Adoption of UIG 1052	-	299
Adjustments to plant and equipment and other temporary differences	(77)	(83)
Net increase in deferred tax liabilities	101	290

As a result of adjustments associated with the change to the balance sheet approach, Telstra Group goodwill increased by $63 million and the FCTR increased by $9 million as at 30 June 2005. Income tax expense for the Telstra Group for the year ended 30 June 2005 increased by $8 million.

For the Telstra Entity, investments increased by $107 million as at 30 June 2005. Dividend revenue increased by $223 million and income tax expense increased by $182 million for the year ended 30 June 2005.

(d) AASB 116: "Property, Plant and Equipment" (AASB 116)

Under the transitional exemptions of AASB 1 we had the option to use an asset's fair value, or previously revalued amount, as its deemed cost from the date of transition. We elected to apply the cost model under AASB 116, and therefore the carrying value of our property, plant and equipment (some of which had been previously revalued) and intangible assets on the date of transition were deemed to be cost under A-IFRS. If this election had not been made, we would have had to restate these assets to their original historical cost.

On transition to A-IFRS an entity is required to derecognise items where A-IFRS does not permit such recognition. As we have adopted the cost model under AASB 116, the asset revaluation reserve will be derecognised as it is not a valid reserve under the cost model. The balance, after taking into consideration other A-IFRS adjustments, has been transferred to the general reserve.

Under previous AGAAP, we recognised the gross proceeds on sale of non current assets as revenue and the cost in other expenses. A-IFRS requires the net gain on sale of non current assets to be classified as other income, not separately treated as revenue and other expenses.

(i) On transition as at 1 July 2004

For the Telstra Entity, the balance of the asset revaluation reserve of $194 million was transferred to the general reserve on transition to A-IFRS.

(ii) At 30 June 2005

On 6 December 2004, we acquired a 50% interest in the 3G Radio Access Network (RAN) assets of Hutchison 3G Australia Pty Ltd (H3GA) for $450 million, payable over 2 years. Due to the deferred payment terms, under previous AGAAP our property, plant and equipment balance increased by $428 million, representing the present value of the purchase price calculated using our incremental borrowing rate. AASB 116 requires that a discount rate specific to the asset be used, rather than our incremental borrowing rate.

Under previous AGAAP, the release of interest associated with the unwinding of the present value discount was capitalised as part of property, plant and equipment until the assets were installed ready for use. Under A-IFRS the release of interest associated with the unwinding of the present value discount was expensed as incurred.

For the Telstra Group, the change in the discount rate and the cessation of interest capitalisation resulted in a decrease in our property, plant and equipment of $37 million, and a decrease in current and non current payables of $10 million (comprising $3 million current and $7 million non current). Finance costs of the Telstra Group for the year ended 30 June 2005 increased by $27 million.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(d) AASB 116: "Property, Plant and Equipment" (AASB 116) (continued)

For the Telstra Group we have reclassified revenue of $476 million (Telstra Entity: $336 million) and other expenses of $215 million (Telstra Entity: $203 million) to other income associated with the net gain on sale of non current assets for the year ended 30 June 2005.

(e) AASB 117: "Leases" (AASB 117)

Under previous AGAAP, operating lease payments were expensed in the periods in which they were incurred. Under A-IFRS, operating lease payments are expensed on a straight line basis over the term of the lease, even if the payments are not on that basis. Where the lease contains a fixed rental increase each year, the total impact of the rental increase is expensed evenly over the lease term.

(i) On transition as at 1 July 2004

For the Telstra Group and Telstra Entity, non-current trade and other payables increased by $37 million, representing an increase to previously recognised operating lease expense associated with using the straight line method for A-IFRS, with a corresponding decrease in opening retained profits.

(ii) At 30 June 2005

For the Telstra Group and Telstra Entity, non-current trade and other payables increased by $48 million. For the year ended 30 June 2005, operating lease expense increased by $11 million.

(f) AASB 119: "Employee Benefits" (AASB 119)

Under previous AGAAP, we did not recognise an asset or liability on our balance sheet for the net position of the defined benefit plans we sponsor in Australia and Hong Kong.

On adoption of A-IFRS, we recognised the net position of each plan as a transitional adjustment to the balance sheet, with a corresponding entry to retained profits. The transitional adjustment was based on an actuarial valuation of each scheme at transition date determined in accordance with AASB 119.

A revised AASB 119 was issued in December 2004 and applies to annual reporting periods beginning on or after 1 January 2006. We have elected under s.334(5) of the Corporations Act 2001 to early adopt this revised accounting standard for the financial year commencing 1 July 2004.

This revised standard is similar to the current accounting standard, with the exception of the treatment of actuarial gains and losses. This revised standard enables us to either:

- recognise actuarial gains and losses directly in the income statement;
- recognise actuarial gains and losses in the income statement using the "corridor approach"; or
- recognise actuarial gains and losses directly in retained profits.

Under this revised standard, we have elected to recognise actuarial gains and losses directly in retained profits. The actuarial gains and losses are based on an actuarial valuation of each plan at reporting date. Other components of pension costs are recognised in the income statement as a labour expense. Where appropriate, this additional labour cost is capitalised as part of our constructed plant and equipment.

(i) On transition as at 1 July 2004

The Telstra Group adjustment on transition resulted in the recognition of a defined benefit asset of $537 million (Telstra Entity: $529 million), with a corresponding increase in opening retained profits.

(ii) At 30 June 2005

The cumulative effect on the Telstra Group balance sheet at 30 June 2005 was to recognise a defined benefit asset of $247 million, increase property, plant and equipment by $24 million and decrease retained profits for actuarial losses by $90 million. Telstra Group labour expense increased by $175 million and depreciation expense increased by $1 million for the year ended 30 June 2005

The cumulative effect on the Telstra Entity balance sheet at 30 June 2005 was to recognise a defined benefit asset of $242 million, increase property, plant and equipment by $24 million and decrease retained profits for actuarial losses by $85 million. Telstra Group labour expense increased by $176 million and depreciation expense increased by $1 million for the year ended 30 June 2005.

(g) AASB 121: "The Effects of Changes in Foreign Exchange Rates" (AASB 121)

AASB 121 requires goodwill and fair value adjustments arising on the acquisition of a foreign controlled entity to be expressed in the functional currency of the foreign operation. Previously, we fixed goodwill and certain fair value adjustments in Australian dollars based on the exchange rate at the acquisition date.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(g) AASB 121: "The Effects of Changes in Foreign Exchange Rates" (AASB 121) (continued)

Under the transitional rules of AASB 1 we have taken advantage of an exemption that permits application of AASB 121 retrospectively to goodwill and fair value adjustments arising in all business combinations that occurred before the date of transition to A-IFRS. This exemption allows us to reset the goodwill and fair value adjustments to the functional currency of the foreign operations at the original date of acquisition. This adjustment is primarily attributable to our investments in the Telstra CSL Group (HKCSL) and TelstraClear Limited (TelstraClear).

Under AASB 1 we have also applied an exemption that permitted the resetting of the FCTR to nil as at the date of transition to A-IFRS.

(i) On transition as at 1 July 2004

The Telstra Group transitional adjustments to reset goodwill and fair value adjustments of foreign controlled entities resulted in a decrease to the FCTR of $297 million, corresponding with an increase to property, plant and equipment of $3 million, an increase of $14 million to intangible assets and a decrease in goodwill of $314 million. The A-IFRS FCTR following these and other A-IFRS adjustments was $343 million. This FCTR balance was reset to nil with a corresponding decrease to opening retained profits.

(ii) At 30 June 2005

The cumulative effect on the Telstra Group balance sheet at 30 June 2005 was to decrease goodwill by $454 million, increase other intangibles by $9 million, increase property, plant and equipment by $2 million and decrease FCTR by $111 million. The impact on the income statement for the year ended 30 June 2005 was a decrease in other expenses of $11 million representing a change in the functional currency of a foreign controlled entity.

(h) AASB 123: "Borrowing Costs"

In accordance with previous AGAAP, we previously capitalised borrowing costs incurred in respect of internally constructed property, plant and equipment and software assets that met the criteria for qualifying assets. The benchmark treatment required under A-IFRS is to expense borrowing costs. AASB 123 does however permit the alternative treatment of capitalising these costs where they relate to qualifying assets. We have elected to change our policy in line with the benchmark treatment and expense our borrowing costs.

(i) On transition as at 1 July 2004

We transferred the unamortised balance of capitalised borrowing costs included in property, plant and equipment and software assets to retained profits. This gave rise to a reduction in Telstra Group property, plant and equipment of $399 million (Telstra Entity: $367 million) and a reduction in software assets of $63 million (Telstra Entity: $63 million), with a corresponding decrease in opening retained profits.

(ii) At 30 June 2005

For the Telstra Group the effect on the balance sheet at 30 June 2005 was to decrease property, plant and equipment by $401 million (Telstra Entity: $374 million) and reduce software assets by $57 million (Telstra Entity: $57 million). Telstra Group depreciation expense decreased by $94 million (Telstra Entity: $90 million) and finance costs increased by $90 million (Telstra Entity: $90 million) for the year ended 30 June 2005.

(i) AASB 128: "Investments in Associates" (AASB 128) and AASB 131: "Interests in Joint Ventures" (AASB 131)

AASB 128/131 requires amounts that are in substance part of the net investment in associates or jointly controlled entities to be accounted for as part of the carrying value of the investment for the purposes of equity accounting the results of the associate or jointly controlled entity. Accordingly, we have reclassified amounts that are not currently recorded in the carrying value of our investment in associates or jointly controlled entities to be treated as an extension of our equity investment. This treatment gave rise to the continuation of equity accounting of our share of the operating losses in respect of those associates and jointly controlled entities that are incurring losses and have balances as described above.

(i) On transition as at 1 July 2004

On transition to AASB 128/131, there was a decrease to Telstra Group non current receivables of $208 million representing the capacity prepayment with our joint venture entity Reach Ltd (Reach). This non current asset was deemed to be an extension of our investment in Reach under A-IFRS and was absorbed by the carried forward losses in Reach not previously recognised. The impact of this change on the Telstra Group was to decrease opening retained profits by $348 million for our share of the accumulated losses, offset by an increase of $140 million to the FCTR for the translation differences on our investment in Reach. The FCTR attributable to Reach was reset to nil as detailed in the adjustment outlined in note 36(g).

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(i) AASB 128: "Investments in Associates" (AASB 128) and AASB 131: "Interests in Joint Ventures" (AASB 131) (continued)

(ii) At 30 June 2005

On 16 April 2005 we swapped our capacity prepayment with Reach for an Indefeasible Right of Use (IRU). This IRU was recorded as a deferred expense under previous AGAAP and was being amortised over the term of the IRU being 15 years. As part of this arrangement, we agreed to fund Reach's committed capital expenditure together with our co-shareholder PCCW Limited for the period until 2022, up to a value of US$106 million each, if required. Our share was disclosed as a contingent liability under previous AGAAP.

Under A-IFRS, the IRU was deemed to be an extension of our investment in Reach, similar to the capacity prepayment. Furthermore, our commitment to Reach for the committed capital expenditure required us to recognise additional equity accounted losses in Reach of $102 million for the year ended 30 June 2005. This gave rise to a provision of $90 million ($32 million current and $58 million non current) as at 30 June 2005 for the net present value of our share of the committed capital expenditure. Other assets - current decreased by $1 million, intangibles decreased by $217 million and trade and other payables decreased by $1 million. For the year ended 30 June 2005, finance costs increased by $2 million associated with the unwinding of the present value discount, amortisation expense decreased by $3 million, finance income decreased by $18 million and exchange losses decreased by $20 million.

The effect on the Telstra Entity for our commitment to Reach for the committed capital expenditure was to recognise a provision of $90 million ($32 million current and $58 million non current) as at 30 June 2005. Other current assets decreased by $1 million, intangible assets increased by $87 million and trade and other payables decrease by $1 million. For the year ended 30 June 2005, finance costs increased by $2 million and amortisation expense increased by $1 million.

Investments accounted for using the equity method decreased by $3 million as a result of the adoption of A-IFRS by our jointly controlled and associated entities. For the year ended 30 June 2005, our share of equity accounted losses increased by $3 million.

(j) AASB 136: "Impairment of Assets" (AASB 136)

Our accounting policy under previous AGAAP was to assess our current and non current assets for impairment by determining the recoverable amount of those assets. We wrote down the value of the non current asset where the carrying amount exceeded recoverable amount. We assessed recoverable amount for a group of non current assets where those assets were considered to work together as one.

With the adoption of AASB 136, impairment of assets is assessed on the basis of individual cash generating units. We have assessed our Australian telecommunications network to be a single cash generating unit for the purpose of this standard with the exception of the HFC network. This approach has been adopted as we consider that, in the generation of our revenue streams, the delivery of our end products or services is heavily reliant on the use of one core of commonly shared communication assets, encompassing the customer access network and the core network. This ubiquitous network carries all our telecommunications traffic throughout Australia.

Under previous AGAAP, we assessed recoverable amount on this same ubiquitous network basis, and as a result, there were no initial adjustments to the value of our network assets under A-IFRS.

Each of our controlled entities, jointly controlled entities and associated entities has also been assessed, and generally each significant entity has at least one separate cash generating unit in its own right. Under AGAAP, we assessed recoverable amount on a similar basis, and there is no initial adjustment to the value of our assets. In accordance with AASB 1, the carrying amount of goodwill at transition date has been tested for impairment and no initial impairment losses were recognised on transition to A-IFRS.

(k) AASB 138: "Intangible Assets" (AASB 138)

As part of the IFRS project, intangibles recognised under previous AGAAP, including software assets developed for internal use and deferred expenditure, were reviewed to confirm that the criteria in AASB 138 have been met. Software assets developed for internal use, and deferred expenditure were reclassified from other current and non current assets to intangible assets on transition to AASB 138. We have also reclassified some software assets from property, plant and equipment to intangible assets for software that is not an integral part of property, plant and equipment.

Under previous AGAAP, we capitalised the subsidised component of mobile handsets that were sold as part of a service contract as a subscriber acquisition cost. This capitalised balance was then amortised over the contract term.

UIG 1042 "Subscriber Acquisition Costs in the Telecommunications Industry" (UIG 1042) was released by the AASB in December 2004 and prescribes the appropriate accounting treatment of subscriber acquisition costs based on the requirements of AASB 138. Specifically, UIG 1042 requires the cost of telephones provided to subscribers to be excluded from subscriber acquisition costs. As a result, under A-IFRS we have elected to expense mobile handset subsidies as incurred.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2004 (continued)

(k) AASB 138: "Intangible Assets" (AASB 138) (continued)

Our subsidiary in Hong Kong, HKCSL, has a licence to utilise 3G spectrum in Hong Kong until 2016. As part of this licence agreement, HKCSL are required to make annual payments for the right to use this spectrum. Under previous AGAAP we expensed these payments as incurred, except for those incurred during the construction of our 3G network in Hong Kong which were capitalised as part of the asset cost.

On adoption of AASB 138 and consistent with other 3G mobile operators in Hong Kong, the Telstra Group has recorded an intangible asset for this 3G spectrum licence, based on the present value of our expected future payments. This intangible asset is amortised over the term of the agreement. A corresponding accrual has also been recorded for our future obligations.

(i) On transition as at 1 July 2004

On transition, other current and non current assets of the Telstra Group and Telstra Entity decreased by $205 million and $34 million respectively for the write-off of deferred mobile handset subsidies, with a corresponding decrease in opening retained profits.

The intangible asset associated with our Hong Kong 3G spectrum licence amounted to $121 million on transition in the Telstra Group, representing the present value of our expected future payments under the licence. Under previous AGAAP these payments were expensed as incurred, with certain payments capitalised as part of the cost of our Hong Kong 3G network. Of the balance of the intangible asset, $25 million has been reclassified from property, plant and equipment that was capitalised under previous AGAAP. Trade and other payables have increased by $96 million ($3 million current and $93 million non current).

Software assets developed for internal use and deferred expenditure were reclassified from other assets and property, plant and equipment to intangible assets on transition to A-IFRS. This reclassification adjustment for the Telstra Group amounted to $2,601 million (Telstra Entity: $2,375 million) as at transition date. This comprised $286 million (Telstra Entity: $249 million) from other current assets, $2,292 million (Telstra Entity: $2,126 million) from other non current assets and $23 million from property, plant and equipment.

(ii) At 30 June 2005

The write-off of deferred mobile handset subsidies decreased other current and non current assets of the Telstra Group and Telstra Entity by $241 million and $62 million respectively. Goods and services purchased for the year ended 30 June 2005 increased by $64 million.

The recognition of the Hong Kong 3G spectrum licence increased intangibles by $108 million, decreased property, plant and equipment by $24 million and increased trade and other payables by $89 million ($2 million current and $87 million non current) for the Telstra Group as at 30 June 2005. Other expenses decreased by $5 million, amortisation increased by $4 million and finance costs increased by $5 million for the year ended 30 June 2005.

The cumulative effect on the Telstra Group balance sheet at 30 June 2005 for the reclassification of software and deferred expenditure was to increase intangibles by $2,875 million (Telstra Entity: $2,534 million). This comprised $305 million (Telstra Entity: $264 million) from other current assets, $2,546 million (Telstra Entity: $2,270 million) from other non current assets and $24 million from property, plant and equipment.

(l) Nature of A-IFRS adjustments with effect from 1 July 2004

In the following tables, presentation adjustments reflect the reclassification of previously recognised amounts into their A-IFRS categories.

Accounting adjustments reflect the remeasurement of previously recognised amounts, or the recognition of additional amounts required under A-IFRS.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of profit under previous AGAAP to A-IFRS for the year ended 30 June 2005 for the consolidated Telstra Group.

		Telstra Group			
		Year ended 30 June 2005			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Income					
Revenue (excluding finance income)	36(d)	22,657	(476)	-	22,181
Other income	36(d)	-	261	-	261
		22,657	(215)	-	22,442
Expenses					
Labour	36(a),(f)	3,693	-	165	3,858
Goods and services purchased	36(k)	4,147	-	64	4,211
Other expenses	36(d),(e),(g),(i),(k)	4,055	(215)	(25)	3,815
		11,895	(215)	204	11,884
Share of net (gain)/loss from jointly controlled and associated entities	36(b),(i)	(9)	-	103	94
		11,886	(215)	307	11,978
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		10,771	-	(307)	10,464
Depreciation and amortisation	36(b),(f),(h),(i),(k)	3,766	-	(237)	3,529
Earnings before interest and income tax expense (EBIT)		7,005	-	(70)	6,935
Finance income	36(a),(i)	103	-	(20)	83
Finance costs	36(d),(h),(i),(k)	839	-	124	963
Net finance costs		736	-	144	880
Profit before income tax expense		6,269	-	(214)	6,055
Income tax expense	36(c)	1,822	-	(76)	1,746
Profit for the year		4,447	-	(138)	4,309

Notes to the Financial Statements (continued)

36.Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of profit under previous AGAAP to A-IFRS for the year ended 30 June 2005 for the Telstra Entity.

		Telstra Entity			
		Year ended 30 June 2005			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Income					
Revenue (excluding finance income)	36(c),(d)	19,944	(336)	223	19,831
Other income	36(d)	-	133	-	133
		19,944	(203)	223	19,964
Expenses					
Labour	36(a),(f)	2,916	-	166	3,082
Goods and services purchased	37(k)	2,894	-	64	2,958
Other expenses	36(d),(e),(i)	3,666	(203)	15	3,478
		9,476	(203)	245	9,518
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		10,468	-	(22)	10,446
Depreciation and amortisation	36(b),(f),(h),(i)	3,298	-	(92)	3,206
Earnings before interest and income tax expense (EBIT)		7,170	-	70	7,240
Finance income	36(a)	103	-	(2)	101
Finance costs	36(h),(i)	851	-	92	943
Net finance costs		748	-	94	842
Profit before income tax expense		6,422	-	(24)	6,398
Income tax expense	36(c)	1,777	-	105	1,882
Profit for the year		4,645	-	(129)	4,516

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of balance sheet under previous AGAAP to A-IFRS as at transition date, 1 July 2004, for the consolidated Telstra Group.

		Telstra Group			
		1 July 2004			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Current assets					
Cash and cash equivalents	36(a)	687	-	3	690
Trade and other receivables	36(a),(m)	3,608	(192)	-	3,416
Inventories		229	-	-	229
Derivative financial assets	36(m)	-	169	-	169
Other assets	36(k)	803	(286)	(205)	312
Total current assets		5,327	(309)	(202)	4,816
Non current assets					
Trade and other receivables	36(a),(i)(m)	740	(387)	(273)	80
Inventories		10	-	-	10
Investments accounted for using the equity method		40	-	-	40
Available for sale investments		80	-	-	80
Property, plant and equipment	36(g),(h),(k)	22,863	(23)	(421)	22,419
Intangibles	36(g),(h),(k),(m)	3,605	2,580	(242)	5,943
Deferred tax assets		2	-	-	2
Derivative financial assets	36(m)	-	238	-	238
Other assets	36(f),(k)	2,326	(2,292)	503	537
Total non current assets		29,666	116	(433)	29,349
Total assets		34,993	(193)	(635)	34,165
Current liabilities					
Trade and other payables	36(k)	2,338	-	3	2,341
Borrowings		3,246	-	-	3,246
Current tax liabilities		539	-	-	539
Provisions		358	-	-	358
Revenue received in advance		1,095	-	-	1,095
Total current liabilities		7,576	-	3	7,579
Non current liabilities					
Trade and other payables	36(e),(k)	49	-	130	179
Borrowings	36(m)	9,014	(429)	-	8,585
Deferred tax liabilities	36(c)	1,807	-	(36)	1,771
Provisions		778	-	-	778
Derivative financial liabilities	36(m)	-	410	-	410
Revenue received in advance		408	-	-	408
Total non current liabilities		12,056	(19)	94	12,131
Total liabilities		19,632	(19)	97	19,710
Net assets		15,361	(174)	(732)	14,455
Equity					
Share capital	36(a)	6,073	(174)	(113)	5,786
Reserves	36(c),(g),(i)	(105)	-	154	49
Retained profits		9,391	-	(773)	8,618
Equity available to Telstra Entity shareholders		15,359	(174)	(732)	14,453
Minority interests		2	-	-	2
Total equity		15,361	(174)	(732)	14,455

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of balance sheet under previous AGAAP to A-IFRS as at transition date, 1 July 2004, for the Telstra Entity.

		Telstra Entity			
		1 July 2004			
			Effect of transition to A-IFRS		
		Previous	Presentation	Accounting	
		AGAAP	adjustments	adjustments	A-IFRS
	Note	$m	$m	$m	$m
Current assets					
Cash and cash equivalents	36(a)	543	-	3	546
Trade and other receivables	36(a),(m)	3,258	(192)	-	3,066
Inventories		206	-	-	206
Derivative financial assets	36(m)	-	169	-	169
Other assets	36(k)	687	(249)	(205)	233
Total current assets		4,694	(272)	(202)	4,220
Non current assets					
Trade and other receivables	36(a),(m)	1,047	(387)	(65)	595
Inventories		10	-	-	10
Investments accounted for using the equity method		32	-	-	32
Investments - other	36(c)	5,435	-	77	5,512
Property, plant and equipment	36(h)	21,600	-	(367)	21,233
Intangibles	36(h),(k),(m)	236	2,354	(63)	2,527
Derivative financial assets	36(m)	-	238	-	238
Other assets	36(f),(k)	2,160	(2,126)	495	529
Total non current assets		30,520	79	77	30,676
Total assets		35,214	(193)	(125)	34,896
Current liabilities					
Trade and other payables		1,891	-	-	1,891
Borrowings		5,527	-	-	5,527
Current tax liabilities		512	-	-	512
Provisions		331	-	-	331
Revenue received in advance		885	-	-	885
Total current liabilities		9,146	-	-	9,146
Non current liabilities					
Trade and other payables	36(e)	46	-	37	83
Borrowings	36(m)	9,014	(429)	-	8,585
Deferred tax liabilities	36(c)	1,748	-	248	1,996
Provisions		740	-	-	740
Derivative financial liabilities	36(m)	-	410	-	410
Revenue received in advance		398	-	-	398
Total non current liabilities		11,946	(19)	285	12,212
Total liabilities		21,092	(19)	285	21,358
Net assets		14,122	(174)	(410)	13,538
Equity					
Share capital	36(a)	6,073	(174)	(113)	5,786
Reserves	36(c)	277	-	(83)	194
Retained profits		7,772	-	(214)	7,558
Total equity		14,122	(174)	(410)	13,538

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of balance sheet under previous AGAAP to A-IFRS as at 30 June 2005 for the consolidated Telstra Group.

		Telstra Group			
		30 June 2005			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Current assets					
Cash and cash equivalents	36(a)	1,540	-	8	1,548
Trade and other receivables	36(a),(m)	3,577	(28)	-	3,549
Inventories		232	-	-	232
Derivative financial assets	36(m)	-	4	-	4
Other assets	36(i),(k)	796	(305)	(242)	249
Total current assets		6,145	(329)	(234)	5,582
Non current assets					
Trade and other receivables	36(a)	272	(131)	(44)	97
Inventories		15	-	-	15
Investments accounted for using the equity method	36(b),(i)	49	-	(1)	48
Property, plant and equipment	36(d),(f),(g),(h),(k)	23,351	(24)	(436)	22,891
Intangibles	36(b),(c),(g),(h),(i),(k),(m)	3,868	2,864	(403)	6,329
Deferred tax assets		2	-	-	2
Other assets	36(f),(k)	2,608	(2,546)	185	247
Total non current assets		30,165	163	(699)	29,629
Total assets		36,310	(166)	(933)	35,211
Current liabilities					
Trade and other payables	36(d),(i),(k)	2,809	-	(2)	2,807
Borrowings	36(m)	1,518	(11)	-	1,507
Current tax liabilities		534	-	-	534
Provisions	36(i)	389	-	32	421
Derivative financial liabilities	36(m)	-	11	-	11
Revenue received in advance		1,132	-	-	1,132
Total current liabilities		6,382	-	30	6,412
Non current liabilities					
Trade and other payables	36(d),(e),(k)	122	-	128	250
Borrowings	36(m)	11,816	(875)	-	10,941
Deferred tax liabilities	36(c)	1,885	-	(81)	1,804
Provisions	36(i)	836	-	58	894
Derivative financial liabilities	36(m)	-	864	-	864
Revenue received in advance		388	-	-	388
Total non current liabilities		15,047	(11)	105	15,141
Total liabilities		21,429	(11)	135	21,553
Net assets		14,881	(155)	(1,068)	13,658
Equity					
Share capital	36(a)	5,793	(155)	(102)	5,536
Reserves	36(c),(g),(i)	(157)	-	4	(153)
Retained profits		9,243	-	(970)	8,273
Equity available to Telstra Entity shareholders		14,879	(155)	(1,068)	13,656
Minority interests		2	-	-	2
Total equity		14,881	(155)	(1,068)	13,658

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of balance sheet under previous AGAAP to A-IFRS as at 30 June 2005 for the Telstra Entity.

		Telstra Entity			
		30 June 2005			
			Effect of transition to A-IFRS		
		Previous AGAAP	Presentation adjustments	Accounting adjustments	A-IFRS
	Note	$m	$m	$m	$m
Current assets					
Cash and cash equivalents	36(a)	1,360	-	8	1,368
Trade and other receivables	36(a),(m)	3,566	(28)	-	3,538
Inventories		194	-	-	194
Derivative financial assets	36(m)	-	4	-	4
Other assets	36(i),(k)	679	(264)	(242)	173
Total current assets		5,799	(288)	(234)	5,277
Non current assets					
Trade and other receivables	36(a)	290	(131)	(44)	115
Inventories		15	-	-	15
Investments accounted for using the equity method	36(i)	44	-	(3)	41
Investments - other	36(c)	6,029	-	107	6,136
Property, plant and equipment	36(f),(h)	21,573	-	(350)	21,223
Intangibles	36(b),(h),(i),(k),(m)	194	2,523	34	2,751
Other assets	36(f),(k)	2,332	(2,270)	180	242
Total non current assets		30,477	122	(76)	30,523
Total assets		36,276	(166)	(310)	35,800
Current liabilities					
Trade and other payables	36(i)	1,957	-	(1)	1,956
Borrowings	36(m)	3,903	(11)	-	3,892
Current tax liabilities		519	-	-	519
Provisions	36(i)	324	-	32	356
Derivative financial liabilities	36(m)	-	11	-	11
Revenue received in advance		912	-	-	912
Total current liabilities		7,615	-	31	7,646
Non current liabilities					
Trade and other payables	36(e)	13	-	48	61
Borrowings	36(m)	11,782	(875)	-	10,907
Deferred tax liabilities	36(c)	1,826	-	135	1,961
Provisions	36(i)	779	-	58	837
Derivative financial liabilities	36(m)	-	864	-	864
Revenue received in advance		381	-	-	381
Total non current liabilities		14,781	(11)	241	15,011
Total liabilities		22,396	(11)	272	22,657
Net assets		13,880	(155)	(582)	13,143
Equity					
Share capital	36(a)	5,793	(155)	(102)	5,536
Reserves	36(c)	277	-	(83)	194
Retained profits		7,810	-	(397)	7,413
Total equity		13,880	(155)	(582)	13,143

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of equity under previous AGAAP to A-IFRS for the consolidated Telstra Group.

	Share capital	Reserves				Retained profits	Minority interests	Total
		Asset revaluation	Foreign currency translation	General	Consoli-dation fair value			
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2004 under AGAAP	6,073	32	(186)	5	44	9,391	2	15,361
Share-based payments . . . . 36(a)	(287)	-	-	-	-	51	-	(236)
Income taxes . . . . .36(c)	-	(32)	-	-	-	68	-	36
Operating leases . . . . 36(e)	-	-	-	-	-	(37)	-	(37)
Net defined benefit asset . . . . . . .36(f)	-	-	-	-	-	537	-	537
Foreign currency . . . . 36(g)	-	-	46	-	-	(343)	-	(297)
Expensing of borrowing costs previously capitalised . . . . 36(h)	-	-	-	-	-	(462)	-	(462)
Equity accounting for Reach Ltd . . . 36(i)	-	-	140	-	-	(348)	-	(208)
Expensing handset subsidies previously deferred . . . . 36(k)	-	-	-	-	-	(239)	-	(239)
Balance at 1 July 2004 under A-IFRS	5,786	-	-	5	44	8,618	2	14,455
Balance at 30 June 2005 under AGAAP	5,793	32	(231)	4	38	9,243	2	14,881
Share-based payments . . . . 36(a)	(257)	-	-	-	-	66	-	(191)
Cease amortisation of goodwill . . 36(b)	-	-	-	-	-	147	-	147
Income taxes . . . . .36(c)	-	(32)	9	-	-	167	-	144
Deferred payment for equipment . 36(d)	-	-	-	-	-	(27)	-	(27)
Operating leases . . . . 36(e)	-	-	-	-	-	(48)	-	(48)
Net defined benefit asset . . . . . . .36(f)	-	-	-	-	-	271	-	271
Foreign currency . . . . 36(g)	-	-	(111)	-	-	(332)	-	(443)
Expensing of borrowing costs previously capitalised . . . . 36(h)	-	-	-	-	-	(458)	-	(458)
Equity accounting for Reach Ltd . . . 36(i)	-	-	140	-	-	(450)	-	(310)
Recognition of Hong Kong 3G spectrum licence . . . . 36(k)	-	-	(2)	-	-	(3)	-	(5)
Expensing handset subsidies previously deferred . . . . 36(k)	-	-	-	-	-	(303)	-	(303)
Balance at 30 June 2005 under A-IFRS	5,536	-	(195)	4	38	8,273	2	13,658

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of equity under previous AGAAP to A-IFRS for the Telstra Entity.

	Share capital	Reserves: Asset revaluation	Reserves: General	Retained profits	Total
	$m	$m	$m	$m	$m
Balance at 1 July 2004 under AGAAP	6,073	277	-	7,772	14,122
Share-based payments . . . 36(a)	(287)	-	-	51	(236)
Income taxes . . . 36(c)	-	(83)	-	(88)	(171)
Property, plant and equipment . . . 36(d)	-	(194)	194	-	-
Operating leases . . . 36(e)	-	-	-	(37)	(37)
Net defined benefit asset . . . 36(f)	-	-	-	529	529
Expensing of borrowing costs previously capitalised . . . 36(h)	-	-	-	(430)	(430)
Expensing handset subsidies previously deferred . . . 36(k)	-	-	-	(239)	(239)
Balance at 1 July 2004 under A-IFRS	5,786	-	194	7,558	13,538
Balance at 30 June 2005 under AGAAP	5,793	277	-	7,810	13,880
Share-based payments . . . 36(a)	(257)	-	-	66	(191)
Cease amortisation of goodwill . . . 36(b)	-	-	-	4	4
Income taxes . . . 36(c)	-	(83)	-	55	(28)
Property, plant and equipment . . . 36(d)	-	(194)	194	-	-
Operating leases . . . 36(e)	-	-	-	(48)	(48)
Net defined benefit asset . . . 36(f)	-	-	-	266	266
Expensing of borrowing costs previously capitalised . . . 36(h)	-	-	-	(431)	(431)
Accounting for investments . . . 36(i)	-	-	-	(6)	(6)
Expensing handset subsidies previously deferred . . . 36(k)	-	-	-	(303)	(303)
Balance at 30 June 2005 under A-IFRS	5,536	-	194	7,413	13,143

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(l) Reconciliation of the statement of cash flows under previous AGAAP to A-IFRS.

	Year ended 30 June 2005					
	Telstra Group			Telstra Entity		
	Previous AGAAP	Adjustments	A-IFRS	Previous AGAAP	Adjustments	A-IFRS
	$m	$m	$m	$m	$m	$m
Cash flows from operating activities . . . .(i),(ii),(iii)	8,163	797	8,960	7,742	810	8,552
Cash flows from investing activities . . (i),(iii),(iv),(v)	(3,809)	43	(3,766)	(2,890)	80	(2,810)
Cash flows from financing activities. . . . (ii),(iv),(v)	(3,512)	(835)	(4,347)	(4,035)	(885)	(4,920)
Net increase in cash . . . .(v)	842	5	847	817	5	822

As a result of the adoption of A-IFRS, the following reclassifications have been made to the statement of cash flows:

(i) Interest received has been reclassified from operating activities to investing activities (Telstra Group: $80 million, Telstra Entity: $81 million);

(ii) Borrowing costs paid has been reclassified from operating activities to cash flows from financing activities and renamed finance costs (Telstra Group: $879 million, Telstra Entity: $892 million);

(iii) Dividends received are classified as cash flows from investing activities after previously being included in cash flows from operating activities (Telstra Group: $2 million, Telstra Entity: $1 million);

(iv) Loans to jointly controlled and associated entities was reclassified from financing activities to investing activities (Telstra Group: $37 million, Telstra Entity: nil); and

(v) Adjustments required as a result of the consolidation of Growthshare. For further information refer to note 36(a).

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

A-IFRS adjustments with effect from 1 July 2005

(m) AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132), AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139) and AASB 7: “Financial Instruments: Disclosures” (AASB 7)

We have elected to apply the exemption available under AASB 1 to apply AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" from 1 July 2005. Accordingly, we have changed our accounting policies for financial instruments from 1 July 2005.

In addition, we have elected to early adopt AASB 7 from 1 July 2005. AASB 7 supersedes the disclosure requirements, but not the presentation requirements of AASB 132.

The transitional rules for first time adoption of A-IFRS required that we restate our comparative financial report using A-IFRS, except for financial instruments within the scope of AASB 132 and AASB 139 where comparative information was not required to be restated. The early adoption of AASB 7 did not require comparative information for fiscal 2005 to be restated and disclosed. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP disclosures, derivative financial instruments were classified within other assets and other liabilities. For comparative purposes these previous AGAAP amounts have been reclassified to derivative financial assets or liabilities on the balance sheet on transition to A-IFRS. The effect of changes in the accounting policies for financial instruments including derivatives, as a result of the adoption of AASB 132 and AASB 139 as at 1 July 2005 is shown below.

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(m) Reconciliation of balance sheet under A-IFRS for AASB 132/139 adoption as at 1 July 2005 for the consolidated Telstra Group

		Telstra Group		
	Note	A-IFRS 30 June 2005 $m	AASB 132/139 adjustments $m	A-IFRS 1 July 2005 $m
Current assets				
Cash and cash equivalents		1,548	-	1,548
Trade and other receivables		3,549	-	3,549
Inventories		232	-	232
Derivative financial assets	(i)	4	6	10
Prepayments		249	-	249
Total current assets		5,582	6	5,588
Non current assets				
Trade and other receivables		97	-	97
Inventories		15	-	15
Investments accounted for using the equity method		48	-	48
Property, plant and equipment		22,891	-	22,891
Intangibles		6,329	-	6,329
Deferred tax assets		2	-	2
Derivative financial assets	(i)	-	512	512
Defined benefit assets		247	-	247
Total non current assets		29,629	512	30,141
Total assets		35,211	518	35,729
Current liabilities				
Trade and other payables		2,807	-	2,807
Borrowings	(ii)	1,507	3	1,510
Current tax liabilities		534	-	534
Provisions		421	-	421
Derivative financial liabilities	(i)	11	5	16
Revenue received in advance		1,132	-	1,132
Total current liabilities		6,412	8	6,420
Non current liabilities				
Trade and other payables		250	-	250
Borrowings	(ii)	10,941	219	11,160
Deferred tax liabilities	(iii)	1,804	32	1,836
Provisions		894	-	894
Derivative financial liabilities	(i)	864	185	1,049
Revenue received in advance		388	-	388
Total non current liabilities		15,141	436	15,577
Total liabilities		21,553	444	21,997
Net assets		13,658	74	13,732
Equity				
Share capital		5,536	-	5,536
Reserves	(iv)	(153)	79	(74)
Retained profits	(v)	8,273	(5)	8,268
Equity available to Telstra Entity shareholders		13,656	74	13,730
Minority interests		2	-	2
Total equity		13,658	74	13,732

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(m) Reconciliation of balance sheet under A-IFRS for AASB 132/139 adoption as at 1 July 2005 for the Telstra Entity

		Telstra Entity		
	Note	A-IFRS 30 June 2005 $m	AASB 132/139 adjustments $m	A-IFRS 1 July 2005 $m
Current assets				
Cash and cash equivalents		1,368	-	1,368
Trade and other receivables		3,538	3	3,541
Inventories		194	-	194
Derivative financial assets	(i)	4	6	10
Prepayments		173	-	173
Total current assets		5,277	9	5,286
Non current assets				
Trade and other receivables		115	1	116
Inventories		15	-	15
Investments accounted for using the equity method		41	-	41
Investments - other		6,136	-	6,136
Property, plant and equipment		21,223	-	21,223
Intangibles		2,751	-	2,751
Derivative financial assets	(i)	-	512	512
Defined benefit assets		242	-	242
Total non current assets		30,523	513	31,036
Total assets		35,800	522	36,322
Current liabilities				
Trade and other payables		1,956	-	1,956
Borrowings	(ii)	3,892	3	3,895
Current tax liabilities		519	-	519
Provisions		356	-	356
Derivative financial liabilities	(i)	11	5	16
Revenue received in advance		912	-	912
Total current liabilities		7,646	8	7,654
Non current liabilities				
Trade and other payables		61	1	62
Borrowings	(ii)	10,907	219	11,126
Deferred tax liabilities	(iii)	1,961	32	1,993
Provisions		837	-	837
Derivative financial liabilities	(i)	864	185	1,049
Revenue received in advance		381	-	381
Total non current liabilities		15,011	437	15,448
Total liabilities		22,657	445	23,102
Net assets		13,143	77	13,220
Equity				
Share capital		5,536	-	5,536
Reserves	(iv)	194	82	276
Retained profits	(v)	7,413	(5)	7,408
Total equity		13,143	77	13,220

Notes to the Financial Statements (continued)

36. Adoption of International Financial Reporting Standards (continued)

(m) AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132), AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139) and AASB 7: "Financial Instruments: Disclosures" (AASB 7) (continued)

Adjustments were made at the date of transition (1 July 2005) to restate the opening balance sheet of the Telstra Group to a position consistent with the accounting policies specified in note 2. These are listed below. Also included is where the transitional provisions will have an effect on future periods.

(i) From 1 July 2005, the recognition and measurement of all derivatives (including any embedded derivatives) is at fair value. Changes in fair value are either taken to the income statement or an equity reserve. At 1 July 2005, a $328 million increase in net assets for the Telstra Group and Telstra Entity was recognised representing:

- a gain of $333 million on the remeasurement of our interest rate swaps and cross currency swaps to fair value; and
- a loss of $5 million on the remeasurement of forward foreign exchange contracts to fair value.

These adjustments are reflected in the previous table as:

- an increase in current assets (derivative financial assets) of $6 million for the Telstra Group and the Telstra Entity;
- an increase in non current assets (derivative financial assets) of $512 million for the Telstra Group and Telstra Entity;
- offset by an increase in current liabilities (derivative financial liabilities) of $5 million for the Telstra Group and Telstra Entity; and
- an increase in non current liabilities (derivative financial liabilities) of $185 million for the Telstra Group and Telstra Entity.

At 1 July 2005, there were no material embedded derivatives which required separate measurement and reporting.

(ii) From 1 July 2005, the carrying value of the hedged item in fair value hedges is adjusted for fair value movements attributable to the hedged risk. At 1 July 2005 a loss of $222 million was recognised for the Telstra Group and Telstra Entity on the remeasurement of our foreign currency borrowings in fair value hedges. This loss is capped such that the adjustment is the lower of:

- the remeasurement to fair value of the hedged item for the designated hedged risk; and
- the remeasurement to fair value of the hedging instrument.

At 1 July 2005, the impact of 'capping' the fair value movement on our foreign currency borrowings in fair value hedges was $70 million for both the Telstra Group and Telstra Entity. This 'capping' amount will be amortised to the income statement on an effective yield to maturity basis over the term of the underlying borrowing.

This adjustment is reflected in the above table as an increase in current borrowings of $3 million and an increase in non current borrowings of $219 million for both the Telstra Group and Telstra Entity.

(iii) At 1 July 2005, a $32 million increase in non current deferred tax liabilities was recognised for both the Telstra Group and Telstra Entity, representing the tax effect of the above adjustments.

(iv) From 1 July 2005, the effective portion of the movement in fair value of derivatives accounted for as cash flow hedges is deferred in equity until such time as the hedged item affects profit or loss. The ineffective portion is recognised immediately in the income statement. At 1 July 2005 a post tax net increase in reserves of $79 million for the Telstra Group and $82 million for the Telstra Entity was recognised representing:

- an increase of $81 million for both the Telstra Group and Telstra Entity to the cash flow hedging reserve, comprising the deferred portion of the fair value of our interest rate swaps and cross currency swaps in cash flow hedges relating to our foreign currency borrowings; and
- a decrease of $2 million (Telstra Entity: an increase of $1 million) to the cash flow hedging reserve, comprising the deferred portion of the fair value of our forward foreign exchange contracts in cash flow hedges of highly probable forecast transactions.

(v) At 1 July 2005, the reduction to retained earnings of $5 million for both the Telstra Group and Telstra Entity comprised:

- a decrease of $222 million on the remeasurement of our foreign currency borrowings in fair value hedges;
- an increase of $215 million on the remeasurement of our derivatives, excluding the portion deferred in equity relating to our cash flow hedges; and
- an increase of $2 million for the tax effect.

(vi) From 1 July 2005, movement in the fair value of derivatives accounted for as fair value hedges, together with the gain or loss on the related hedged item attributable to the hedged risk will be recognised in the income statement.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures

Reconciliations to financial reports prepared using USGAAP

Our consolidated financial report is prepared in accordance with the Australian equivalents of International Financial Reporting Standards (A-IFRS), which differs in certain respects from the accounting principles generally accepted in the United States (USGAAP). The significant differences between A-IFRS and USGAAP are presented throughout note 37.

		Telstra Group		
		Year ended 30 June		
				Restated
		2006	2006	2005
	Note	$m	US$m	$m
Reconciliation of net income to USGAAP				
A-IFRS net income reported in income statement		**3,181**	**2,362**	4,309
Adjustments required to agree with USGAAP				
Property, plant and equipment	37(c)	**(26)**	**(19)**	(61)
Borrowing costs	37(d)	**(27)**	**(20)**	(18)
Investments	37(e)	**-**	**-**	17
Retirement benefit (expense)/gain	37(f)	**(44)**	**(33)**	1
Income tax expense	37(g)	**(85)**	**(63)**	(10)
Employee compensation expense	37(h)	**-**	**-**	(7)
Derivative financial instruments and hedging activities	37(i)	**192**	**144**	(96)
CSL New World Mobility Limited (formerly Telstra CSL Limited)	37(j)	**(634)**	**(471)**	-
Fair value / general reserve adjustments	37(k)	**-**	**-**	5
Redundancy and restructuring provision	37(m)	**161**	**119**	-
Mobile handset subsidies	37(n)	**-**	**-**	64
Cumulative effect of changes in accounting principles, net of tax	37(b)	**(245)**	**(181)**	-
Net income per USGAAP		**2,473**	**1,838**	4,204
Income statement measured and classified per USGAAP(i)				
Operating revenue		**22,779**	**16,909**	22,167
Operating expenses:				
Labour		**4,381**	**3,252**	3,865
Goods and services purchased (ii)		**4,235**	**3,144**	3,442
Depreciation and amortisation		**4,871**	**3,616**	3,715
Other operating expenses		**4,829**	**3,585**	4,556
Total operating expenses		**18,316**	**13,597**	15,578
Operating income		**4,463**	**3,312**	6,589
Net interest expense		**(672)**	**(499)**	(767)
Share of net gain/(loss) of jointly controlled and associated entities		**5**	**4**	(94)
Other income		**387**	**288**	232
Net income before income tax expense and minority interests		**4,183**	**3,105**	5,960
Income tax expense	37(g)	**1,465**	**1,086**	1,756
Net income before cumulative effect adjustments		**2,718**	**2,019**	4,204
Cumulative effect of changes in accounting principles, net of tax	37(b)	**(245)**	**(181)**	-
Net income per USGAAP		**2,473**	**1,838**	4,204
		¢	**US¢**	¢
Dividends paid per share per USGAAP(iii)		**40.0**	**29.7**	33.0

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

USGAAP earnings per share

		Telstra Group		
		Year ended 30 June		
				Restated
		2006	**2006**	2005
	Note	**¢**	**US¢**	¢
Basic earnings per share before cumulative effect of change in accounting principles		**22.0**	**16.3**	33.8
Cumulative effect of change in accounting principles (net of tax):				
Mobile handset subsidies	37(b)	**(1.7)**	**(1.3)**	-
Capitalisation of pension cost	37(b)	**(0.3)**	**(0.2)**	-
Basic earnings per share per USGAAP (cents)		**20.0**	**14.8**	33.8
Dilutive earnings per share before cumulative effect of change in accounting principles		**21.9**	**16.3**	33.7
Cumulative effect of change in accounting principles (net of tax):				
Mobile handset subsidies	37(b)	**(1.7)**	**(1.3)**	-
Capitalisation of pension cost	37(b)	**(0.3)**	**(0.2)**	-
Diluted earnings per share per USGAAP (cents)		**19.9**	**14.8**	33.7

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Total comprehensive income disclosure

Total comprehensive income is calculated by adding net income and other comprehensive income.

	Telstra Group Year ended 30 June 2006 $m	Telstra Group Year ended 30 June 2005 $m
Net income per USGAAP	**2,473**	4,204
USGAAP other comprehensive income/(loss)	**125**	(273)
USGAAP total comprehensive income	**2,598**	3,931

Other comprehensive income/(loss) represents movements in shareholders' equity that are not related to contributions from owners or payments to owners.

	Telstra Group Year ended 30 June 2006 $m	Telstra Group Year ended 30 June 2005 $m
Foreign currency translation reserve	**125**	(241)
Unrealised gain on available-for-sale securities, after tax of $nil (2005: $4 million decrease)	**-**	14
Realised gain on sale of available-for-sale securities transferred to net income, after tax of $nil (2005: $10 million decrease)	**-**	(46)
USGAAP other comprehensive income/(loss)	**125**	(273)

The reclassification from accumulated other comprehensive income/(loss) to net income was determined on the basis of specific identification. Included within other comprehensive income for the year ended 30 June 2006 is the reclassification of $132 million from the foreign currency translation reserve to the dilution loss recognised as part of the merger between CSL and New World PCS Holdings Limited (New World Mobility). Refer to note 37(j) for further details.

In fiscal 2006, the proceeds from sales of available-for-sale equity securities was $nil (2005: $141 million).

The gain recorded as part of other comprehensive income/(loss) in relation to derivative and non derivative instruments that have been designated as hedges of the foreign currency exposure of our net investments in foreign operations for fiscal 2006 was $50 million (2005: $31 million gain).

(i) Income statement reclassifications

Various income statement items under A-IFRS have been reclassified to comply with USGAAP presentation rules. These include:

- net gain on disposal of non current assets of $85 million (2005: $88 million) is recorded as other operating income under A-IFRS but other non-operating income for USGAAP;
- rent from property and motor vehicles of $22 million (2005: $20 million) is recorded as other operating revenue under A-IFRS but other non-operating income for USGAAP;
- loss on foreign currency transactions of $2 million (2005: $40 million gain) is recorded as other operating expenses under A-IFRS but other non-operating income for USGAAP;
- miscellaneous income of $243 million (2005: $173 million) is recorded in other operating income under A-IFRS but other non-operating income for USGAAP; and
- under A-IFRS, dealer commissions and bonuses of $493 million (2005: $711 million) are included in goods and services purchased as they are directly related to our sales revenue. Under USGAAP they are classified as other operating expenses.

(ii) Goods and services purchased

Cost of sales includes both direct and indirect costs involved in the sale of the Company's goods and services. For a service company this would commonly include depreciation and other indirect costs associated with the provision of services. However, we do not report our costs according to this description and classify all of our expenses according to the nature of the expense, referred to as "goods and services purchased" in relation to the sale of goods and services.

Goods and services purchased mainly comprises:
- network service capacity from external communication service providers;
- mobile handsets sold to customers;
- cost of goods sold (other than mobile handsets); and
- directory paper costs.

Goods and services purchased does not equate to cost of sales due to the non inclusion of depreciation and other indirect costs associated with the provision of our telecommunications services.

(iii) Dividends paid per share

Dividends paid per share for USGAAP includes TESOP97 and TESOP99 options outstanding as issued shares. Refer to note 37(h).

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

	Note	Telstra Group As at 30 June 2006 $m	2006 US$m	Restated 2005 $m
Reconciliation of shareholders' equity to USGAAP				
A-IFRS shareholders' equity per balance sheet		**12,832**	**9,525**	13,658
Cumulative adjustments required to agree with USGAAP				
Property, plant and equipment	37(c)	**(203)**	**(151)**	(177)
Borrowing costs	37(d)	**543**	**403**	570
Investments	37(e)	**(63)**	**(47)**	(63)
Minority interests(iii)		**(246)**	**(183)**	(2)
Retirement benefits	37(f)	**(1,242)**	**(921)**	(193)
Income tax	37(g)	**255**	**189**	(59)
Derivative financial instruments and hedging activities	37(i)	**(195)**	**(145)**	(370)
CSL New World Mobility Limited (formerly Telstra CSL Limited)	37(j)	**(56)**	**(42)**	542
Fair value / general reserve adjustments	37(k)	**(54)**	**(40)**	(54)
Goodwill and other intangible asset adjustments	37(l)	**71**	**53**	41
Redundancy and restructuring provision	37(m)	**161**	**120**	-
Mobile handset subsidies	37(n)	**-**	**-**	303
Shareholders' equity per USGAAP		**11,803**	**8,761**	14,196
Balance sheet measured and classified per USGAAP				
Current assets				
Cash and cash equivalents	10	**689**	**511**	1,548
Receivables		**3,701**	**2,747**	3,515
Inventories	12	**224**	**166**	232
Deferred tax asset	37(g)	**376**	**279**	294
Other assets		**243**	**181**	249
Total current assets		**5,233**	**3,884**	5,838
Non current assets				
Receivables		**121**	**90**	65
Derivative financial instruments		**214**	**159**	369
Inventories	12	**20**	**15**	15
Investments - accounted for using the equity method		**27**	**20**	52
Property, plant and equipment		**50,632**	**37,584**	48,380
Accumulated depreciation of property, plant and equipment		**(26,663)**	**(19,792)**	(25,037)
Goodwill, net		**2,087**	**1,549**	2,618
Other intangible assets, net		**4,101**	**3,044**	4,662
Prepaid pension assets	37(f)	**5**	**4**	78
Total non current assets		**30,544**	**22,673**	31,202
Total assets		**35,777**	**26,557**	37,040

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group As at 30 June		
	Note	2006 $m	2006 US$m	Restated 2005 $m
Balance sheet measured and classified per USGAAP (continued)				
Current liabilities				
Payables		3,570	2,650	2,766
Borrowings - short term debt		1,583	1,175	463
Borrowings - long term debt due within one year		401	298	1,061
Income tax payable		428	318	534
Provisions	19	662	491	421
Other current liabilties		1,187	881	1,150
Total current liabilities		7,831	5,813	6,395
Non current liabilities				
Payables		112	83	257
Derivative financial instruments		525	390	859
Borrowings - long term debt		11,734	8,710	11,641
Deferred tax liability	37(g)	1,971	1,463	2,300
Provisions		888	659	894
Accrued pension liability	37(f)	172	128	-
Other non current liabilties		495	367	496
Total non current liabilities		15,897	11,800	16,447
Total liabilities		23,728	17,613	22,842
Minority interests(iii)	23	246	183	2
Net assets		11,803	8,761	14,196
Shareholders' equity				
Share capital - 12,443,074,357 shares issued at 30 June 2006 (2005: 12,443,074,357 shares) (i)	21	5,793	4,300	5,793
Share loan to employees - 55,104,025 shares at 30 June 2006 (2005: 60,378,525 shares)	21	(130)	(96)	(154)
Shares held by employee share plan trusts - 17,931,918 shares at 30 June 2006 (2005: 20,216,091 shares)		(99)	(73)	(113)
Additional paid in capital from employee share plans		390	289	395
Total share capital		5,954	4,420	5,921
Accumulated other comprehensive loss (ii)		(604)	(448)	(729)
Retained earnings		6,453	4,789	9,004
Total shareholders' equity		11,803	8,761	14,196

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

(i) Share capital

Number of shares issued includes shares issued to employees under share loans and shares held by employee share plan trusts. Net balance of shares issued and outstanding at 30 June 2006 is 12,370,038,414 shares (2005: 12,362,479,741 shares).

(ii) Accumulated other comprehensive loss

Accumulated other comprehensive loss, net of related tax, for USGAAP consists of the following components:

	Telstra Group	
	As at 30 June	
	2006	2005
	$m	$m
Foreign currency translation reserve	**(591)**	(716)
Derivative financial instruments	**(19)**	(19)
(tax effect)	**6**	6
	(13)	(13)
Accumulated other comprehensive loss (net of tax)	**(604)**	(729)

As part of the merger between CSL and New World Mobility, $132 million was reclassified from accumulated other comprehensive loss to the dilution loss recognised on the merger. Refer to note 37(j) for further details.

(iii) Minority interest

Under A-IFRS, minority interests are presented within equity, but separate from the parent shareholders' equity. Under USGAAP, minority interests are presented outside equity, in between liabilities and equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to USGAAP.

37(a) Immaterial adjustments to previously reported USGAAP amounts

As discussed in note 36, we have adopted A-IFRS from 1 July 2005. This adoption required us to restate our financial information for the year ended 30 June 2005 to comply with A-IFRS. As part of this process, a number of immaterial adjustments have been made to our previously reported USGAAP amounts. As such we have restated certain USGAAP financial measures for the year ended 30 June 2005. The impact of these adjustments is as follows:

	Telstra Group
	30 June 2005
	$m
Reconciliation of net income	
Net income per USGAAP - as previously reported	4,172
Adjustments:	
- Hong Kong 3G spectrum licence	(5)
- Reach committed capex liability	(90)
- Operating leases	(11)
- Functional currency	11
- Income taxes	123
- Tax effect of above adjustments	4
Net income per USGAAP - restated	4,204
	cents per share
Basic earnings per share per USGAAP - as previously reported	33.6
Basic earnings per share per USGAAP - restated	33.8
Diluted earnings per share per USGAAP - as previously reported	33.5
Diluted earnings per share per USGAAP - restated	33.7
Reconciliation of shareholders' equity	**$m**
Shareholders' equity per USGAAP - as previously reported	14,367
Adjustments:	
- Hong Kong 3G spectrum licence	14
- Reach committed capex liability	(93)
- Operating leases	(34)
- Income taxes	(58)
Shareholders' equity per USGAAP - restated	14,196

Hong Kong 3G spectrum licence

Our subsidiary in Hong Kong, HKCSL, has a licence to utilise 3G spectrum in Hong Kong until 2016. As part of this licence agreement, HKCSL are required to make annual payments for the right to use this spectrum. Under previous AGAAP we expensed these payments as incurred and historically we have not recorded a USGAAP adjustment for this licence.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

Hong Kong 3G spectrum licence (continued)

However, under USGAAP this licence should have been capitalised as an intangible asset on acquisition, based on the present value of the expected future payments, with a corresponding liability also recorded.

The adjustment to decrease net income per USGAAP for the year ended 30 June 2005 of $5 million is a result of additional amortisation of $5 million and an increase in net interest expense of $4 million associated with the unwinding of the present value discount, offset by a decrease in other operating expenses of $4 million due to the reversal of the licence payments expense.

The increase in shareholders' equity per USGAAP as at 30 June 2005 of $14 million represents an increase in intangible assets ($108 million), a decrease in property, plant and equipment ($24 million), an increase in current and non-current payables ($2 million and $87 million respectively) and a decrease in deferred tax liabilities ($19 million).

Due to the adoption of A-IFRS there is no longer a USGAAP adjustment for this 3G spectrum licence. Refer to note 36(k).

Reach committed capex liability

During fiscal 2005, we agreed to fund the committed capital expenditure of our jointly controlled entity Reach, together with our co-shareholder PCCW Limited, for the period until 2022. Our share of this commitment was disclosed as a contingent liability under previous AGAAP and a USGAAP adjustment was recorded in our 30 June 2005 financial statements to recognise additional equity accounted losses only to the extent of our actual payments under the commitment to 30 June 2005.

However, under USGAAP we were required to recognise additional equity accounted losses in Reach for our entire capital expenditure commitment, not just the amount paid. This adjustment has given rise to an additional $88 million of equity accounted losses and an additional $2 million of interest expense for the year ended 30 June 2005.

The decrease in shareholders' equity per USGAAP as at 30 June 2005 of $93 million represents an increase in current and non-current provisions of $32 million and $58 million respectively and a decrease in investments accounted for using the equity method of $3 million.

Due to the adoption of A-IFRS there is no longer a USGAAP adjustment for our commitment to Reach. Refer to note 36(i).

Operating leases

Under previous AGAAP we expensed our operating lease payments as incurred and in our previously published financial statements we did not record a USGAAP adjustment to recognise operating lease expenses on a straight line basis. The impact of this adjustment is an increase to other operating expenses of $11 million for the year ended 30 June 2005. Non-current payables increased by $48 million and deferred tax liability decreased by $14 million as at 30 June 2005.

Due to the adoption of A-IFRS there is no longer a USGAAP adjustment for operating leases. Refer to note 36(e).

Functional currency

During the assessment of the functional currency for each of our overseas operations as part of our adoption of A-IFRS, we discovered that the functional currency of Telstra Global Limited under USGAAP was incorrect. This restatement has resulted in a decrease in other operating expenses of $11 million for the year ended 30 June 2005, with a corresponding increase in other comprehensive income.

Due to the adoption of A-IFRS there is no longer a USGAAP adjustment for the functional currency of our overseas operations. Refer to note 36(g).

Income taxes

In our 30 June 2005 financial statements, the USGAAP adjustment to net income for income taxes has been adjusted by $123 million due to the following:

- adjusting the tax effect of our USGAAP adjustments for property, plant and equipment, resulting in a decrease in tax expense of $44 million;
- adjustment to the deferred tax on our investments accounted for using the equity method, resulting in a decrease in tax expense of $93 million; and
- not appropriately recognising deferred taxes for various balances, including intangible assets recognised on acquisitions, resulting in a $14 million increase in tax expense.

The majority of these adjustments to tax expense have arisen as a result of the related deferred tax balances being written off under USGAAP during the year ended 30 June 2005. However, with the adoption of A-IFRS these adjustments were recorded in the A-IFRS opening transition balance sheet at 1 July 2004. As such, the different timing of recording these adjustments for A-IFRS and USGAAP purposes has resulted in the majority of these adjustments. The decrease in shareholders' equity for USGAAP as at 30 June 2005 of $58 million represents a decrease in goodwill of $6 million and an increase in deferred tax liability of $52 million. Accumulated other comprehensive income was also reduced by $26 million.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

37(b) Changes in accounting principles under USGAAP

Mobile handset subsidies

We previously deferred subsidies on mobile handset sold as part of a bundled arrangement under USGAAP. This was based on the fact that the revenue allocated to subsidised handsets in accordance with EITF 00-21 "Revenue Arrangements with Multiple Deliverables" (EITF 00-21), is contingent upon the delivery of the contracted services and is therefore recognised over the expected customer contract life. As such we previously recognised the subsidised cost of the handsets on a similar basis.

From 1 July 2005, we have changed our accounting principle to expense handset subsidies as incurred. This change was adopted in order to ensure consistency with the accounting principle we have elected to adopt under A-IFRS. Furthermore, this change in principle treats the handset as a separate deliverable from a cost viewpoint which is consistent with the principles of EITF 00-21.

This change in accounting principle has resulted in the write off of $303 million of previously deferred handset subsidies as at 1 July 2005, with an adjustment to deferred tax liability of $91 million.

Capitalisation of pension cost

Historically we have recorded a USGAAP adjustment to recognise an expense (or benefit) for the defined benefit plans that we sponsor (refer to note 37(f)). From 1 July 2005 we have changed our accounting principle to capitalise a portion of our pension cost/benefit under USGAAP, where that cost/benefit is attributable to employees who are directly engaged in the construction of our property, plant and equipment, for the period of time that those employees spend on the construction work. Previously we have not capitalised a portion of this cost/benefit.

This change in accounting principle is preferable as the pension cost/ benefit is considered an additional labour cost and this change would ensure consistency with how we treat other labour costs. It is also consistent with our accounting principle under A-IFRS.

This change has resulted in a decrease to property, plant and equipment on 1 July 2005 of $47 million, with an associated increase in deferred tax liability of $14 million.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP

37(c) Property, plant and equipment

Revaluations

Certain items of property, plant and equipment had been previously revalued under A-IFRS. Revaluations of property, plant and equipment are not allowed under USGAAP, except for permanent impairments. As such we have reversed previously revalued property, plant and equipment to historical cost for USGAAP purposes.

Under A-IFRS, we have deemed the carrying value of our property, plant and equipment to be cost and as such we no longer revalue property, plant and equipment.

Depreciation expense and disposal gains or losses under A-IFRS are based on the recorded amount of the asset and are therefore higher (or lower for disposal losses) for assets that had been previously revalued upwards. Depreciation expense and disposal gains and losses have been adjusted to reflect amounts based on the original cost of the asset for USGAAP.

Impairment loss reversal - Hybrid Fibre Coaxial (HFC) cable network

In fiscal 1997, we wrote down the value of our HFC cable network by $587 million. This writedown continues to be reflected in the HFC network's carrying value under A-IFRS. Under USGAAP, the initial future undiscounted cash flows derived from our HFC network were greater than the recorded value and continue to be as at 30 June 2006. As a result, the writedown has been reversed for USGAAP. Depreciation expense has also been increased under USGAAP due to the higher asset value.

Indirect costs

Before 1 July 1996, we expensed all indirect costs as incurred. Under USGAAP, those indirect costs associated with operations and management personnel directly involved in the construction of our communication assets have been systematically allocated and recorded as part of the cost of those assets and depreciated accordingly.

From 1 July 1996, we changed our accounting policy in relation to indirect cost capitalisation to be consistent with USGAAP.

Sale of property sold as part of a sale and lease back transaction

In fiscal 2003, we sold certain land and buildings under a sale and leaseback arrangement. The net gain on the sale was recognised in net income.

Under USGAAP, the gains made on the sale of land and buildings as part of the sale and leaseback transaction were deferred and are currently being recognised over the period of the underlying leases. The original gain deferred for USGAAP was $177 million.

Purchase of radio access network (RAN) assets

In fiscal 2005, we entered into an arrangement with Hutchison 3G Australia Pty Ltd (H3GA) to jointly own and operate H3GA's existing third generation RAN assets and fund future network development. The purchase consideration for our share of the RAN assets was $447 million, payable over 2 years.

Under A-IFRS, the purchase consideration was discounted using an asset specific discount rate. Under USGAAP, an incremental borrowing rate was used to discount the purchase consideration. The difference in the discount rate has resulted in a higher asset value and depreciation expense under USGAAP, offset by lower borrowing costs associated with the unwinding of the discount.

Refer to note 37(e) for further information on the 3G Partnership.

Summary of property, plant and equipment adjustments

	Telstra Group			
	Net Income		Shareholders' Equity	
	Year ended / As at 30 June			
	2006 $m	2005 $m	**2006 $m**	2005 $m
Revaluations	**6**	6	**(593)**	(599)
HFC cable network	**(23)**	(25)	**144**	167
Indirect costs	**(39)**	(60)	**342**	381
Sale and leaseback	**18**	18	**(108)**	(126)
RAN assets	**12**	-	**12**	-
	(26)	(61)	**(203)**	(177)

37(d) Borrowing costs

Under A-IFRS, we expense all borrowing costs when incurred. Under USGAAP, borrowing costs relating to the construction of property, plant and equipment and software developed for internal use are recorded as part of the asset cost. The capitalised borrowing costs also result in higher depreciation expense under USGAAP.

For USGAAP purposes, we have capitalised borrowing costs with a net book value of $543 million as at 30 June 2006 (2005: $570 million). Additional depreciation and disposals of $108 million (2005: $108 million) have been recorded for the year ended 30 June 2006, offset by a decrease in interest expense of $81 million (2005: $90 million).

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(e) Investments

3GIS Partnership

The 3GIS Partnership was established to operate the third generation radio access network (RAN) as discussed in note 37(c). The partners each made an initial investment of $1 but provide additional capital as required in the form of interest-free loans.

Under A-IFRS, we recognise our share of the RAN assets held by the partnership within property, plant and equipment. Expenses incurred by the partnership are on-charged to the partners in equal proportion.

Under USGAAP, we account for the 3GIS Partnership using the equity method. As such, the interest-free loans are considered to form part of the investment in the partnership, and we record our share of the partnership's results against this investment.

PCCW Limited (PCCW) Converting Note

Under A-IFRS, our converting note issued by PCCW was carried at face value, with adjustments for accrued interest and foreign exchange movements recorded in the income statement in operating expenses. Under USGAAP, the instrument was classified as an available-for-sale security with changes in fair value being recorded in other comprehensive income.

On 30 June 2005, the note expired and was redeemed for $76 million. Under USGAAP, the balance recorded in other comprehensive income was transferred to net income on redemption.

Reach Ltd (Reach)

In fiscal 2001, as a part of the strategic alliance with PCCW, a jointly controlled entity, Reach, was formed through the combination of our international wholesale business and certain other wholesale assets together with certain PCCW assets.

Under USGAAP, this investment was recorded at the net book value of the assets and liabilities transferred, reduced by the amount of cash received. This resulted in a negative carrying value, with the excess credit being recognised as an adjustment to the amount of goodwill on other components of the interdependent transactions - in this case a reduction in the goodwill of CSL (refer to note 37(l)).

As at 31 December 2002, we wrote down the entire carrying amount of our investment in Reach under both A-IFRS and USGAAP, which eliminated most of the USGAAP difference previously reported for Reach.

For both A-IFRS and USGAAP we ceased equity accounting our investment in Reach in fiscal 2003 due to the investment, including other non-participating interests in Reach, being written down to zero.

Summary of investment adjustments

	Telstra Group			
	Net Income		Shareholders' Equity	
	Year ended / As at 30 June			
	2006 $m	2005 $m	**2006 $m**	2005 $m
3GIS partnership	**-**	27	**27**	27
PCCW converting note	**-**	(10)	**-**	-
Reach Ltd	**-**	-	**(90)**	(90)
	-	17	**(63)**	(63)

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(f) Retirement benefits

Under USGAAP, our defined benefit plans are accounted for under Statement of Financial Accounting Standards No. 87 (SFAS 87) "Employers' Accounting for Pensions". While the requirements of this standard are broadly consistent with our policy under A-IFRS (refer note 2.24), there are a number of key differences.

Under A-IFRS, actuarial gains and losses are recognised directly in retained earnings. Under USGAAP, the recognition of certain gains and losses is delayed. Aggregated unrecorded gains and losses exceeding 10% of the greater of the aggregated projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

Under USGAAP, future investment and contribution taxes of the fund are not taken into account, with only current taxes reflected in the measurement of the net periodic pension cost and prepaid pension asset.

Based on industry practice in Australia, under A-IFRS the defined benefit asset is adjusted for the estimated impact of future investment and contribution taxes of the fund, which are considered part of the ultimate cost to settle the obligation. Future investment tax is taken into account through an adjustment to the discount rate, while a separate tax reserve is created to take into account future contribution tax benefits.

Due to a change in accounting principle we now capitalise a portion of the net period pension cost under USGAAP (refer to note 37(b)), consistent with our policy under A-IFRS. However, under A-IFRS we have only applied this policy from 1 July 2004, our transition date to A-IFRS. Under USGAAP, we have adjusted our property, plant and equipment to reflect this policy as if it had always been applied. Furthermore, differences in the pension cost have lead to differences in amounts capitalised. These differences between A-IFRS and USGAAP have an ongoing impact on depreciation and amortisation.

Presented below are the disclosures required by USGAAP that are different from A-IFRS. These disclosures have been prepared with respect to only the defined benefit components of our pension plans.

	Telstra Group		
	Year ended 30 June		
	2006 $m	**2006 US$m**	2005 $m
Net periodic pension cost			
The components of net periodic pension cost for our defined benefit plans are as follows:			
Service cost on benefits earned	**214**	**159**	200
Interest cost on projected benefit obligation	**226**	**168**	223
Expected return on assets	**(333)**	**(247)**	(317)
Expenses and taxation	**16**	**12**	16
Member contributions for defined benefits	**(20)**	**(15)**	(21)
Transfer of funds to defined contribution plan (i)	**93**	**69**	78
Curtailment loss	**58**	**43**	-
Settlement gain	**(7)**	**(5)**	(4)
Net periodic pension cost per USGAAP	**247**	**184**	175
Net periodic pension cost per A-IFRS	**182**	**136**	201
Net impact on net income due to different pension cost capitalised	**21**	**15**	(25)
Total USGAAP adjustment	**44**	**33**	(1)
We used the following major assumptions to determine net periodic pension cost/(benefit) under USGAAP :			
Discount rate	**5.98%**	**5.98%**	5.99%
Expected rate of increase in future salaries	**3.02%**	**3.02%**	3.97%
Expected long-term rate of return on assets	**7.00%**	**7.00%**	7.50%

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(f) Retirement benefits (continued)

	Telstra Group		
	Year ended 30 June		
	2006 $m	**2006 US$m**	2005 $m
Projected benefit obligations			
Reconciliation of change in projected benefit obligation			
Projected benefit obligation at beginning of year	**3,964**	**2,942**	3,540
Service cost	**214**	**159**	200
Interest cost	**226**	**168**	223
Member contributions	**7**	**5**	4
Benefit payments (i)	**(715)**	**(531)**	(69)
Curtailment loss	**58**	**43**	-
Foreign currency exchange rate changes	**2**	**1**	(7)
Actuarial (gain)/loss	**(379)**	**(281)**	73
Projected benefit obligation at end of year per USGAAP	**3,377**	**2,506**	3,964
We used the following major assumptions to determine benefit obligations under USGAAP:			
Discount rate	**5.98%**	**5.98%**	5.48%
Expected rate of increase in future salaries	**3.02%**	**3.02%**	3.99%
Accumulated benefit obligation at end of year	**2,374**	**1,762**	2,472
Plan assets			
Reconciliation of change in fair value of plan assets			
Fair value of plan assets at beginning of year	**4,519**	**3,354**	4,302
Actual return on plan assets	**825**	**612**	360
Transfer of funds to defined contribution plan (i)	**(93)**	**(69)**	(78)
Employer contributions	**3**	**2**	3
Member contributions for defined benefits	**20**	**15**	21
Transfers/member contributions for accumulation benefits	**7**	**5**	4
Benefit payments (i)	**(715)**	**(531)**	(69)
Plan expenses	**(16)**	**(12)**	(17)
Foreign currency exchange rate changes	**2**	**1**	(7)
Fair value of plan assets at end of year per USGAAP	**4,552**	**3,377**	4,519

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(f) Retirement benefits (continued)

	Telstra Group		
	Year ended 30 June		
	2006	**2006**	2005
	$m	**US$m**	$m
Reconciliation of funded status of plan			
Projected benefit obligation	**(3,377)**	**(2,506)**	(3,964)
Plan assets at fair value	**4,552**	**3,377**	4,519
Funded status	**1,175**	**871**	555
Unrecognised net transition liability	**4**	**3**	4
Unrecognised net actuarial gain	**(1,346)**	**(998)**	(481)
Pension (liability)/asset per USGAAP	**(167)**	**(124)**	78
Prepaid pension asset per A-IFRS	**1,029**	**764**	247
Differences in pension cost capitalised	**46**	**33**	24
Total USGAAP adjustment	**(1,242)**	**(921)**	(193)

(i) Benefits payments include payments out of the defined benefit plan into the defined contribution plan.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(g) Income tax

Under A-IFRS, we apply the balance sheet liability method of accounting for deferred taxes, which is broadly consistent with Statement of Financial Accounting Standards No. 109 (SFAS 109) “Accounting for Income Taxes”.

Our other USGAAP adjustments disclosed in note 37 have amended the carrying values of certain assets and liabilities under USGAAP and has resulted in an adjustment to the deferred tax balances.

Under A-IFRS, deferred taxes that arise on the initial recognition of an asset or liability are not recognised where the transaction is not a business combination and affects neither accounting profit nor taxable profit at the time of the transaction. USGAAP contains no such exemption and as such additional deferred tax balances have been recognised for USGAAP.

We have a number of intangible assets with an indefinite life, most notably our Trading Post mastheads. Under A-IFRS, the tax base used in the deferred tax calculation is the asset’s disposal value. It is assumed that the accounting carrying value will only be consumed upon disposal due to the fact that these intangible assets are not being amortised for accounting purposes.

However, under USGAAP the tax base used in the deferred tax calculation is the depreciable tax value, which is generally nil for these assets. This is because the intangible assets are not being specifically held for disposal and therefore the disposal value cannot be used for USGAAP purposes. This has resulted in an increase in deferred tax liability for USGAAP, with a corresponding increase in goodwill.

For A-IFRS, we classify all deferred tax balances as non current. For USGAAP, the classification between current and non current is based on the balance sheet classification of the underlying net current and non current asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the balance sheet measured and classified per USGAAP.

Summary of income tax adjustments

	Telstra Group			
	Net Income		Shareholders' Equity	
	Year ended / As at 30 June			
	2006 $m	2005 $m	**2006 $m**	2005 $m
Initial recognition exemption	**(7)**	1	**(43)**	(35)
Indefinite life intangibles . .	**-**	-	**8**	8
Property, plant and equipment (note 37(c)). . . .	**10**	18	**68**	58
Borrowing costs (note 37(d))	**7**	4	**(157)**	(164)
Investments (note 37(e)). . .	**(3)**	(5)	**(5)**	(2)
Retirement benefits (note 37(f))	**14**	(2)	**373**	56
Derivatives and hedging (note 37(i))	**(58)**	29	**59**	111
CSL New World Mobility (note 37(j))	**-**	(33)	**-**	-
General reserve (note 37(k)) .	**-**	(3)	**-**	-
Redundancy and restructuring (note 37(m)) . .	**(48)**	-	**(48)**	-
Mobile handset subsidies (note 37(n))	**-**	(19)	**-**	(91)
	(85)	(10)	**255**	(59)

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(g) Income tax (continued)

	Telstra Group		
	As at 30 June		
	2006	2006	2005
	$m	US$m	$m
Deferred tax assets			
Foreign exchange translation, hedge and other finance costs	58	43	117
Employee entitlements	268	199	281
Revenue received in advance	148	110	130
Provisions	164	122	64
Trade and other payables	57	42	38
Accrued pension liability	68	50	-
Tax losses	291	216	230
Other	78	58	23
Total gross deferred tax assets under USGAAP	1,132	840	883
Valuation allowance	(185)	(137)	(161)
Total net deferred tax assets under USGAAP	947	703	722
Deferred tax liabilities			
Property, plant and equipment	2,047	1,520	2,003
Prepaid pension asset	-	-	23
Intangible assets	495	367	611
Mobile handset subsidies	-	-	91
Total deferred tax liabilities under USGAAP	2,542	1,887	2,728
Net deferred tax liability under USGAAP	(1,595)	(1,184)	(2,006)
Net deferred tax liability under A-IFRS	1,703	1,264	1,802
Difference	108	80	(204)
Reported as follows for the USGAAP balance sheet:			
Net current deferred tax asset	376	279	294
Net non current deferred tax liability	(1,971)	(1,463)	(2,300)
	(1,595)	(1,184)	(2,006)

As at 30 June 2006, our foreign operations have operating loss carryforwards of $291 million of which $9 million will expire in 2027. The remaining balance does not have an expiration date. We have established a valuation allowance of $185 million to provide for the operating loss carryforward due to our uncertainty over our ability to utilise these operating loss carryforwards.

As at 30 June 2005, our foreign operations have operating loss carryforwards of $230 million of which $13 million will expire in fiscal year 2027. We have established a valuation allowance of $161 million to provide for the operating loss carryforward due to our uncertainty over our ability to utilise these operating loss carryforwards

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(g) Income tax (continued)

The following table represents the domestic and foreign components of net income before income tax expense and minority interests and income tax expense/(benefit), calculated in accordance with USGAAP:

	Telstra Group		
	Year ended / As at 30 June		
	2006	**2006**	2005
	$m	**US$m**	$m
Net income before income tax expense and minority interests consists of:			
Domestic	**4,829**	**3,586**	5,940
Foreign	**(646)**	**(481)**	20
Net income before income tax expense and minority interest	**4,183**	**3,105**	5,960
Income tax expense/(benefit) consists of:			
Current:			
Domestic	**1,785**	**1,325**	1,718
Foreign	**15**	**11**	22
Total current income tax expense	**1,800**	**1,336**	1,740
Deferred:			
Domestic	**(326)**	**(243)**	22
Foreign	**(9)**	**(7)**	(6)
Total deferred income tax expense/(benefit)	**(335)**	**(250)**	16
Income tax expense, net	**1,465**	**1,086**	1,756

Actual income tax expense differs from the amounts computed by applying the statutory Australian income tax rate of 30% to net income before income tax expense and minority interests. The following table represents the reconciliation of the expected income tax expense to actual income tax expense:

	Telstra Group		
	Year ended / As at 30 June		
	2006	**2006**	2005
	$m	**US$m**	$m
Expected income tax expense	**1,255**	**931**	1,788
(Decrease)/increase in income taxes resulting from:			
Effect of different rates of tax on overseas income	**(19)**	**(14)**	(11)
Non assessable and non deductible items	**88**	**64**	(23)
Cumulative effect of changes in accounting principles	**105**	**78**	-
Under/(over) provision of tax in prior years	**36**	**27**	2
Actual income tax expense for USGAAP	**1,465**	**1,086**	1,756

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(h) Employee share plans and compensation expenses

Our employee and executive share plans are described in note 31.

As at 1 July 2005 for USGAAP purposes, we have adopted Statement of Financial Accounting Standards No. 123 Revised (SFAS 123R), "Share-Based Payment" using the modified prospective application method. This standard requires entities to recognise an expense for the issue of employee stock options and similar awards based on their fair value on the grant date and recognised over the associated service period, which is usually the vesting period. However there is no financial statement effect for us upon adoption of SFAS 123R, as we previously adopted the fair value method of valuing employee stock options and similar awards under SFAS No. 123, "Accounting for Stock Based Compensation".

Under A-IFRS, we have adopted AASB 2 "Share-based Payment" which is broadly consistent with SFAS 123R. As permitted under A-IFRS and described in note 31, we have elected to apply AASB 2 only to equity instruments granted after 7 November 2002, which have not vested as at 1 January 2005. Therefore a USGAAP adjustment is still required to record the compensation expense for equity instruments issued prior to 7 November 2002.

As a result of this adjustment, we have recorded nil compensation expense for the year ended 30 June 2006 in the reconciliation of net income to USGAAP (2005: $7 million).

37(i) Derivative financial instruments and hedging activities

Our risk management policies and objectives of entering into derivative financial instruments have been disclosed in note 35, "Financial and capital risk management."

As permitted on the first-time adoption of A-IFRS, the Company elected to not restate comparative information for financial instruments within the scope of AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139). Therefore, for the year end 30 June 2005 the fair value of derivatives were not recorded under A-IFRS. Beginning 1 July 2005, derivative financial instruments are recognised and measured at fair value.

Under USGAAP, certain derivative instruments are designated as fair value hedges. The gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, is recognised in other income/expense as part of net income during the period of the change in fair values.

Under A-IFRS, the same derivative instruments are designated as cash flow hedges. The effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into net income in the same period or periods during which the hedged transaction affects net income. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognised in other income/ expense as part of net income during the period of change.

We enter into forward foreign exchange contracts to hedge certain firm commitments denominated in foreign currencies relating to our capital expenditure programs. Under A-IFRS, realised gains and losses on termination of these hedges are recognised as a net cost of the equipment acquired.

We do not designate specific forward foreign exchange contracts as hedges under USGAAP. As a result, changes in fair value of the forward foreign exchange contracts are required to be recognised in net income for USGAAP purposes. We have recorded a marked to market adjustment in other income per USGAAP for the forward foreign exchange contracts outstanding at 30 June 2006.

As a result of the change in the capital expenditure foreign exchange contract rates, we also recorded an adjustment to increase fixed assets and depreciation expense. Additionally, another adjustment to other income per USGAAP was recorded to reverse net realised foreign exchange gains/losses capitalised in property, plant and equipment under A-IFRS.

We enter into interest rate swaps to manage our exposure to interest rate risk relating to our outstanding short-term commercial paper. We do not designate the interest rate swaps used to manage our interest rate exposure as hedges under USGAAP. As a result, changes in the fair values of these interest rate swaps are required to be included in the reconciliation of net income to USGAAP. We have recorded a marked to market adjustment in other income under USGAAP for changes in fair value of interest rate swap contracts outstanding at the fiscal year end.

We enter into cross currency interest rate swaps to hedge our exposure to the risk of overall changes in fair value relating to interest rate and foreign currency risk of our foreign currency borrowings. The ineffective portion of our hedging instruments (inclusive of the time value of money) is taken to other income/expense.

Under USGAAP we record our derivative instruments on a net basis by counterparty where a master netting agreement is in place. Under A-IFRS we are precluded from netting our derivative instruments by counterparty in the balance sheet.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(i) Derivative financial instruments and hedging activities (continued)

Summary of derivative financial instruments and hedging activities adjustments

	Telstra Group			
	Net Income		Shareholders' Equity	
	Year ended / As at 30 June			
	2006 $m	2005 $m	**2006 $m**	2005 $m
Forward foreign exchange contracts	**1**	2	**3**	2
Interest rate swaps	**21**	(85)	**-**	(163)
Cross currency interest rate swaps	**(214)**	(13)	**(198)**	(209)
	192	(96)	**(195)**	(370)

37(j) CSL New World Mobility Limited (formerly Telstra CSL Limited (CSL))

Original acquisition

Under previous AGAAP, acquisition costs of $999 million were written off on acquisition of CSL in January 2001. USGAAP did not allow such a write-off, as it could not be supported by an analysis of the undiscounted cash flows of the entity. Accordingly, the goodwill write-off was reversed and is carried forward as a difference in the reconciliation of shareholders' equity to USGAAP.

USGAAP adjustments were also recorded on the acquisition of CSL for the following:

- losses of $30 million on the hedge of the purchase of CSL were included in the cost of acquisition under previous AGAAP, but were recognised in net income under USGAAP; and
- recognition of a deferred tax asset of $33 million under USGAAP associated with fair value acquisition adjustments, with a corresponding decrease to goodwill. This deferred tax asset was realised in fiscal 2005.

Goodwill impairment

On 31 March 2006, we merged the CSL Group with the mobile operations of New World PCS Holdings Limited and its controlled entities (New World Mobility Group) to form the CSL New World Mobility Group. Our carrying value of goodwill under USGAAP for CSL has historically been higher than under A-IFRS due to the USGAAP adjustments on original acquisition, and the merger transaction indicated that a pre-existing impairment under USGAAP existed in CSL.

We performed an impairment test on our goodwill balance in CSL prior to recording the merger and as a result we recognised an impairment loss in our net income per USGAAP. The fair value of CSL for the purposes of the impairment test was calculated using a discounted cash flow technique.

Historically under USGAAP, we have recorded impairment losses of $394 million. These impairment losses were based on a discounted cash flow technique used to calculate the fair value of CSL.

New World Mobility merger

Under the merger agreement, CSL issued new shares to New World Mobility Holdings Limited for 100% of the issued capital of the New World Mobility Group and $44 million cash. The issue of new shares diluted our ownership interest in the merged group to 76.4%.

Under A-IFRS, a dilution gain was recognised directly in equity, being the difference between the fair value of the interest acquired in the New World Mobility Group and the carrying value of the diluted interest in the merged group, including any foreign currency translation reserve balance.

Due to the USGAAP impairment recorded in CSL goodwill just prior to the merger transaction, the carrying value of CSL at the date of the merger was lower under USGAAP compared to A-IFRS. Furthermore, the foreign currency translation reserve balance associated with CSL under USGAAP at the date of the merger was significantly higher than the balance under A-IFRS due to the USGAAP adjustments described in note 37(l). This lead to us recording a dilution loss on the merger under USGAAP primarily due to the reclassification of $132 million from accumulated other comprehensive loss. This dilution has been recorded directly in equity for USGAAP purposes.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(j) CSL New World Mobility Limited (continued)

Summary of CSL New World Mobility adjustments

	Telstra Group			
	Net Income		Shareholders' Equity	
	Year ended / As at 30 June			
	2006 $m	2005 $m	**2006 $m**	2005 $m
Original acquisition	**-**	-	**936**	936
Goodwill impairment	**(634)**	-	**(1,028)**	(394)
New World Mobility merger	**-**	-	**36**	-
	(634)	-	**(56)**	542

37(k) Fair value and general reserve adjustments

Under A-IFRS, we recorded a reserve of $54 million on the acquisition of a controlling interest in TelstraClear Limited in December 2001, representing our share of the fair value adjustments attributed to our previous equity accounted ownership interest. Under USGAAP this reserve adjustment was offset against goodwill.

Under A-IFRS, the effect of dilutions of ownership due to equity transactions conducted by third parties are recorded in a reserve. Under USGAAP, this is treated as a sale of ownership interest and taken to net income. For the year ended 30 June 2006, the adjustment to net income was $nil (2005: $5 million gain).

37(l) Goodwill and other intangible asset adjustments

Under both A-IFRS and USGAAP, goodwill is not amortised but reviewed for impairment annually, or more frequently if certain indicators or triggers arise. However, we ceased amortising goodwill under USGAAP from 1 July 2002 but did not cease amortisation under A-IFRS until 1 July 2004. As such we continue to record a historical USGAAP adjustment.

Under both A-IFRS and USGAAP, goodwill in foreign controlled entities is denominated in the functional currency of the foreign operation, with translation adjustments recorded in equity. Where there is a difference between the A-IFRS and USGAAP balance of goodwill, an adjustment is also made to the translation effect. Furthermore, on transition to A-IFRS we reset our foreign currency translation reserve to zero, which has been reversed for USGAAP purposes.

Summary of goodwill and other intangible asset adjustments

	Telstra Group			
	Net Income		Shareholders' Equity	
	Year ended / As at 30 June			
	2006 $m	2005 $m	**2006 $m**	2005 $m
Amortisation difference	**-**	-	**229**	229
Translation differences of goodwill in foreign operations	**-**	-	**(158)**	(188)
	-	-	**71**	41

Intangible assets subject to amortisation

Our intangible assets still subject to amortisation are brandnames, customer bases, patents, trademarks and licences. The carrying amount of these intangibles are disclosed in note 15. The following table represents the estimated aggregate amortisation expense for these intangible assets which are still amortised under USGAAP:

	Telstra Group				
	Year ended 30 June				
	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Estimated aggregate amortisation expense	169	141	107	104	102

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(l) Goodwill and other intangible asset adjustments (continued)

The following table is a reconciliation of the carrying amount of our goodwill under USGAAP by reportable segment:

Telstra Group

	Telstra Enterprise & Government $m	Telstra International $m	Sensis $m	Other $m	Total $m
Carrying amount of goodwill (USGAAP) at 30 June 2004	83	1,962	235	1	2,281
Additional goodwill recognised	360	2	153	4	519
Foreign currency translation adjustment	(6)	(176)	-	-	(182)
Carrying amount of goodwill (USGAAP) at 30 June 2005	437	1,788	388	5	2,618
Additional goodwill recognised	**4**	**287**	**33**	**-**	**324**
Disposals	**(4)**	**(272)**	**-**	**-**	**(276)**
Foreign currency translation adjustment	**-**	**55**	**-**	**-**	**55**
Impairment losses	**-**	**(634)**	**-**	**-**	**(634)**
Carrying amount of goodwill (USGAAP) at 30 June 2006	**437**	**1,224**	**421**	**5**	**2,087**

37(m) Redundancy and restructuring

The principal difference between A-IFRS and USGAAP with respect to accruing for restructuring costs is that A-IFRS places emphasis on the recognition of the costs of the exit plan as a whole whereas USGAAP requires that each type of cost be examined individually to determine when it may be accrued. The differences are primarily related to the timing of the recognition of restructuring costs.

As a result we have recorded an adjustment of $46 million to reduce the provision related to contractual obligations. Under USGAAP, a liability is incurred for contractual obligations when the Company ceases using the right conveyed by the contract. As of 30 June 2006, the Company has not ceased using the rights conveyed by these contracts.

An adjustment of $115 million is recorded to reduce the provision for other exit costs. Under USGAAP, a liability is incurred for other exit costs if the Company has already incurred the cost. As of 30 June 2006, the Company has not incurred these expenses.

There is no significant GAAP difference between A-IFRS and USGAAP in relation to the redundancy provision we have recognised at 30 June 2006.

37(n) Mobile handset subsidies

In fiscal 2005 under USGAAP, we deferred our mobile handset subsidies and recognised them over the expected customer life. Under A-IFRS we expense handset subsidies as incurred.

On 1 July 2005, we changed our accounting principle under USGAAP to expense handset subsidies as incurred, consistent with our policy under A-IFRS. As such there is no longer a USGAAP adjustment. Refer to note 37(b) for further details.

The impact of this adjustment on net income for the year ended 30 June 2005 was an increase of $64 million. Shareholders' equity under USGAAP at 30 June 2005 increased by $303 million.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(o) Consolidation of variable interest entities

A-IFRS requires consolidation of an entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity to enable it to operate with us in achieving our objectives. Ownership percentage as a single factor does not determine consolidation under A-IFRS.

USGAAP requires a beneficiary to consolidate a variable interest entity if it is the primary beneficiary of that entity. The primary beneficiary is defined as having a variable interest in a variable interest entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns (if no party absorbs a majority of the entity's expected losses), or both. A variable interest entity is any legal structure used to conduct activities or hold assets that either:

- has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support;
- has a group of equity owners that are unable to make significant decisions about its activities; or
- has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

We have identified the following variable interest entities for which we are considered to be the primary beneficiary:

- Telstra Employee Share Ownership Plan Trust (TESOP97);
- Telstra Employee Share Ownership Plan Trust II (TESOP99); and
- Telstra Growthshare Trust.

These entities have been consolidated under both A-IFRS and USGAAP.

We have also identified the 3GIS Partnership to be a variable interest entity, of which we have a significant variable interest, but we are not the primary beneficiary. As such, we have not consolidated the 3GIS Partnership. For further information, refer to notes 30 and 37(c).

37(p) Arrangements that contain leases

Based on the requirements of Emerging Issues Task Force Issue No. 01-8 (EITF 01-8), "Determining Whether an Arrangement Contains a Lease", an arrangement contains a lease if fulfilment of that arrangement is dependent upon the use of specific property, plant and equipment and it conveys the right to control the use of the specific property, plant and equipment to the purchaser.

If an arrangement is considered to contain a lease under EITF 01-8 then it is split into its lease and non-lease components using the relative fair value method, with each component accounted for separately. EITF 01-8 is only applicable to arrangements that we entered into or modified after 1 July 2003.

Currently under A-IFRS, and for arrangements entered into prior to 1 July 2003 for USGAAP, we account for these types of arrangements as service agreements. There is no material impact on the reconciliations of net income and shareholders' equity to USGAAP of this difference in accounting for embedded leases.

37(q) Recently issued United States accounting standards

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- An Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition requirements. The Company is currently evaluating the impact of this new Interpretation.

In April 2006, the FASB issued FASB Staff Position FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" ("FSP 46(R)-6"), which provides additional guidance to consider when determining:

- whether an entity is a variable interest entity;
- which interests are considered to be variable interests in the entity; and
- which party, if any, is the primary beneficiary of a variable interest entity.

The Company is currently evaluating the impact of this new interpretation.

Notes to the Financial Statements (continued)

37. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

37(q) Recently issued United States accounting standards (continued)

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156"), which amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. SFAS 156 is effective for fiscal years beginning after September 15, 2006 and is required to be adopted by us in the first quarter of fiscal year 2008. The Company is currently evaluating the impact this new Standard but believes that it will not have a material impact on the Company's balance sheet, income statement or cash flows.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"), which amends SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities" and SFAS No. 140, SFAS No.155 amends SFAS No. 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. SFAS No. 155 also amends SFAS No.140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. SFAS No. 155 is effective for fiscal years beginning after 15 September 2006. The Company is currently evaluating the impact this new Standard but believes that it will not have a material impact on the Company's balance sheet, income statement or cash flows.

In November 2005, the FASB issued FASB Staff Position SFAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP 123(R)-3"). FSP 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the beginning balance of the accumulated paid-in capital pool related to employee compensation and a simplified method to determine the subsequent impact on the accumulated paid-in capital pool of employee awards that are fully vested and outstanding upon the adoption of SFAS 123(R). The Company does not believe that this FSP will have a material impact on the income statement or balance sheet.

In November 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") Nos. SFAS 115-1 and SFAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of other-than-temporary impairments. The adoption of the FSP did not have a material impact on the income statement and balance sheet.

In October 2005, the FASB issued FASB Staff Position SFAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in SFAS 123(R)" ("FSP 123(R)-2"). FSP 123(R)-2 provides guidance on the application of grant date as defined in SFAS 123(R). In accordance with this standard a grant date of an award exists if:

- the award is a unilateral grant; and
- the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period from the date of approval

The Company does not believe that this FSP will have a material impact on the income statement or balance sheet.

In May 2005, the FASB issued FASB Statement No. 154, "Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements" and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005 and requires prospective application. The Company is currently evaluating the impact of this new Standard.

Directors' Declaration

This directors' declaration is required by the Corporations Act 2001 of Australia.

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes, set out on pages 2 to 202 of Telstra Corporation Limited and the Telstra Group:

(i) comply with the Accounting Standards and Corporations Regulations;

(ii) give a true and fair view of the financial position as at 30 June 2006 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2006; and

(iii) in the directors' opinion, have been made out in accordance with the Corporations Act 2001.

(b) they have received declarations as required by S.295A of the Corporations Act 2001;

(c) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable in Australia; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 29(a) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 29(a).

In accordance with subsection 334(5) of the Corporations Act 2001, the directors have elected to adopt the following Australian accounting standards early for the year ended 30 June 2006:

- AASB 119: "Employee Benefits" (issued in December 2004);
- AASB 7: "Financial Instruments: Disclosures";
- AASB 2005-3: "Amendments to Australian Accounting Standards"; and
- AASB 2005-10: "Amendments to Australian Accounting Standards".

For and on behalf of the board

Donald G McGauchie
Chairman

Solomon D Trujillo
Chief Executive Officer and Executive Director

Date: 10 August 2006
Melbourne, Australia

Independent Audit Report to the Members of Telstra Corporation Limited

This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2006 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Scope

The financial report and directors' responsibility

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

The directors of the Telstra Entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Telstra Entity and the Telstra Group, and that complies with Accounting Standards in Australia, 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 financial report.

Audit approach

I have conducted an independent audit of the 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 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 financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view that is consistent with my understanding of the Telstra Entity's and the Telstra Group's financial position, and of their performance as represented by the results of their operations and cash flows.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

I have also audited the explanation and quantification of the major differences between Australian Accounting Standards compared to generally accepted accounting principles in United States of America, which is presented in note 37 to the financial statements. I have audited note 37 in order to form an opinion whether in all material respects, it presents fairly, in accordance with Accounting Standards in Australia and other mandatory financial reporting requirements in Australia and generally accepted accounting principles in the United States of America, the major differences between Australian Accounting Standards and generally accepted accounting principles in the United States of America.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of the procedures, my audit was not designed to provide assurance on internal controls.

I performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and the other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Telstra Entity.

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 a copy of which is included in the Directors' Report. In addition to the audit of the financial report, additional services were undertaken as disclosed in the notes to the financial statements. The provision of these services has not impaired my independence.

Independent Audit Report to the Members of Telstra Corporation Limited (continued)

Audit opinion

In my opinion, the financial report of the Telstra Group is in accordance with:

(a) the Corporations Act 2001 including:

  (i) giving a true and fair view of the financial position of the Telstra Entity and the Telstra Group as at 30 June 2006 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Further, in my opinion, note 37 to the financial statements presents fairly the major differences between Australian Accounting Standards and generally accepted accounting principles in the United States of America.

Ian McPhee

Auditor-General
Date: 10 August 2006
Canberra, Australia