Telstra Corporation Limited and controlled entities

Appendix 4E
Preliminary final report
for the year ended 30 June 2007

Appendix 4E
Preliminary final report
30 June 2007
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Year ended 30 June			
	2007	2006	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue (excluding finance income)	**23,709**	22,734	975	4.3%
Other income	**251**	328	(77)	(23.5%)
Profit for the year	**3,275**	3,183	92	2.9%

For fiscal 2007 and fiscal 2006, all items included in our income statement are considered to be from continuing activities.

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

As at 30 June 2007 the carrying value of the Trading Post mastheads was tested for impairment based on value in use. This test resulted in an impairment charge of $110 million being recognised in the financial statements. The impairment arose as a result of increasing competition in the traditional print classifieds market, challenges in the highly competitive on-line classified market and the risks associated with new initiatives.

For the year ended 30 June 2006, we recorded a number of redundancy and restructuring related expenses totalling $1,126 million associated with the implementation of the strategic review initiatives. A total provision of $427 million was raised for redundancy and restructuring as at 30 June 2006.

The redundancy and restructuring costs included the following:

- redundancy costs associated with the reduction in our workforce, including those redundancies that have been provided for;
- the provision for restructuring costs associated with shutting down certain networks, platforms and applications, property rationalisation, onerous lease costs and replacing customer equipment;
- the impairment of assets due to the decision to shut down certain networks and platforms that are no longer considered recoverable. This also included 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.

As at 30 June 2007, we have a remaining balance on our redundancy and restructuring provision of $232 million.

Appendix 4E
Preliminary final report
30 June 2007
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to market (continued)

Dividends declared per ordinary share

	Telstra Group	
	Year ended 30 June	
	2007	2006
	¢	¢
Interim dividend	**14.0**	14.0
Special dividend paid with the interim dividend	**-**	6.0
Final dividend	**14.0**	14.0
Total	**28.0**	34.0

Our dividends for fiscal 2007 and fiscal 2006 are fully franked at a tax rate of 30%.

The interim dividend for fiscal 2007 had a record date of 2 March 2007 and was paid on 30 March 2007.

The final dividend for fiscal 2007 was declared subsequent to balance date and will be paid in fiscal 2008. Our final dividend in respect of fiscal 2007 has been disclosed as an event after balance date. The final dividend has a record date of 24 August 2007 with payment to be made on 21 September 2007. Shares will trade excluding entitlement to the dividend on 20 August 2007.

In addition, our final dividend in respect of fiscal 2006 was provided for and paid during fiscal 2007. The final dividend had a record date of 25 August 2006 and payment was made on 22 September 2006.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Contents and reference page

Income Statement

for the year ended 30 June 2007

	Telstra Group	
	Year ended 30 June	
	2007	2006
	$m	$m
Income		
Revenue (excluding finance income)	**23,709**	22,734
Other income	**251**	328
	23,960	23,062
Expenses		
Labour	**4,017**	4,364
Goods and services purchased	**5,151**	4,701
Other expenses	**4,924**	4,427
	14,092	13,492
Share of net loss/(gain) from jointly controlled and associated entities	**7**	(5)
	14,099	13,487
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,861**	9,575
Depreciation and amortisation	**4,082**	4,078
Earnings before interest and income tax expense (EBIT)	**5,779**	5,497
Finance income	**57**	74
Finance costs	**1,144**	1,007
Net finance costs	**1,087**	933
Profit before income tax expense	**4,692**	4,564
Income tax expense	**1,417**	1,381
Profit for the year	**3,275**	3,183
Attributable to:		
Equity holders of Telstra Entity	**3,253**	3,183
Minority interest	**22**	-
	3,275	3,183
Earnings per share (cents per share)	**cents**	cents
Basic	**26.3**	25.7
Diluted	**26.2**	25.7

The above income statement is an extract from our full financial report. Refer to the 30 June 2007 financial report lodged with this document for the detailed notes to this statement.

Balance Sheet

as at 30 June 2007

	Telstra Group	
	As at 30 June	
	2007	2006
	$m	$m
Current assets		
Cash and cash equivalents	**823**	689
Trade and other receivables	**3,891**	3,721
Inventories	**332**	224
Derivative financial assets	**41**	21
Prepayments	**266**	244
Total current assets	**5,353**	4,899
Non current assets		
Trade and other receivables	**190**	146
Inventories	**17**	20
Investments - accounted for using the equity method	**16**	23
Investments - other	**3**	-
Property, plant and equipment	**24,607**	23,592
Intangible assets	**6,625**	6,123
Deferred tax assets	**1**	1
Derivative financial assets	**249**	391
Defined benefit assets	**814**	1,029
Total non current assets	**32,522**	31,325
Total assets	**37,875**	36,224
Current liabilities		
Trade and other payables	**4,207**	3,570
Borrowings	**2,743**	1,982
Current tax liabilities	**449**	428
Provisions	**628**	737
Derivative financial liabilities	**177**	12
Revenue received in advance	**1,230**	1,170
Total current liabilities	**9,434**	7,899
Non current liabilities		
Trade and other payables	**195**	197
Borrowings	**11,619**	11,442
Deferred tax liabilites	**1,513**	1,705
Provisions	**834**	974
Derivative financial liabilities	**1,328**	768
Revenue received in advance	**372**	405
Total non current liabilities	**15,861**	15,491
Total liabilities	**25,295**	23,390
Net assets	**12,580**	12,834
Equity		
Share capital	**5,611**	5,569
Reserves	**(258)**	(160)
Retained profits	**6,976**	7,179
Equity available to Telstra Entity shareholders	**12,329**	12,588
Minority interests	**251**	246
Total equity	**12,580**	12,834

The above balance sheet is an extract from our full financial report. Refer to the 30 June 2007 financial report lodged with this document for the detailed notes to the balance sheet.

Statement of Recognised Income and Expense

for the year ended 30 June 2007

	Telstra Group	
	Year ended 30 June	
	2007	2006
	$m	$m
Foreign currency translation reserve		
Equity accounting our interest in jointly controlled and associated entities .	**(1)**	1
Translation of financial statements of non-Australian controlled entities . .	**(144)**	(36)
Cash flow hedging reserve		
Net hedging (losses)/gains recognised directly in equity	**(552)**	327
Net hedging losses/(gains) removed from equity and included in profit for the year.	**573**	(420)
Net hedging losses removed from equity and included in property, plant and equipment	**11**	-
Retained profits		
Actuarial gain on defined benefit plans	**23**	962
	(90)	834
Income tax on equity items	**(15)**	(256)
Net (expense)/income recognised directly in equity	**(105)**	578
Profit for the year	**3,275**	3,183
Total recognised income for the year	**3,170**	3,761
Attributable to:		
Telstra Entity	**3,161**	3,757
Minority interest.	**9**	4
	3,170	3,761
Effect of changes in accounting policy	**-**	74

The above statement of recognised income and expense is an extract from our full financial report. Refer to the 30 June 2007 financial report lodged with this document for the detailed notes to this statement.

Cash Flow Statement

for the year ended 30 June 2007

	Telstra Group	
	Year ended 30 June	
	2007	2006
	$m	$m
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax (GST))	26,187	25,191
Payments to suppliers and to employees (inclusive of GST)	(16,049)	(14,756)
Net cash generated by operations	10,138	10,435
Income taxes paid	(1,618)	(1,882)
Net cash provided by operating activities	8,520	8,553
Cash flows from investing activities		
Payments for:		
- property, plant and equipment	(4,657)	(3,636)
- intangible assets	(995)	(619)
Capital expenditure (before investments)	(5,652)	(4,255)
- shares in controlled entities (net of cash acquired)	(326)	(43)
- payments for other investments	(4)	(5)
Total capital expenditure	(5,982)	(4,303)
Proceeds from:		
- sale of property, plant and equipment	32	50
- sale of intangible assets	2	-
- sale of shares in controlled entities (net of cash disposed)	218	4
- sale of other investments	14	89
Proceeds from finance lease principal amounts	84	30
Net cash consideration from CSL New World Mobility merger	(21)	42
Issue of additional shares by controlled entities	-	6
Proceeds from share buy-back by jointly controlled and associated entities	-	34
Loan to jointly controlled and associated entities	(24)	-
Interest received	56	74
Net cash used in investing activities	(5,621)	(3,974)
Operating cash flows less investing cash flows	2,899	4,579
Cash flows from financing activities		
Proceeds from borrowings	5,206	3,241
Proceeds from Telstra bonds and domestic loans	373	-
Repayment of borrowings	(3,776)	(2,224)
Repayment of Telstra bonds and domestic loans	-	(517)
Repayment of finance lease principal amounts	(42)	(31)
Staff repayments of share loans	17	24
Purchase of shares for employee share plans	-	(6)
Finance costs paid	(1,056)	(945)
Dividends paid	(3,479)	(4,970)
Net cash used in financing activities	(2,757)	(5,428)
Net increase/(decrease) in cash and cash equivalents	142	(849)
Cash and cash equivalents at the beginning of the year	689	1,534
Effects of exchange rate changes on cash and cash equivalents	(8)	4
Cash and cash equivalents at the end of the year	823	689

The above cash flow statement is an extract from our full financial report. Refer to the 30 June 2007 financial report lodged with this document for the detailed notes to this statement.

Appendix 4E Year ended 30 June 2007

1. Statement of retained profits

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

	Telstra Group	
	As at 30 June	
	2007	2006
	$m	$m
Opening balance	**7,179**	8,273
- adjustment to opening balance on adoption of new accounting standard	**-**	(5)
Adjusted opening balance	**7,179**	8,268
- profit for the year attributable to equity holders of Telstra Entity	**3,253**	3,183
- actuarial gain on defined benefit plans	**23**	958
- income tax on the actuarial gain on defined benefit plans	**(6)**	(284)
- dividends paid	**(3,479)**	(4,970)
- transfers from consolidation fair value reserve	**6**	6
- dilution gain recognised on CSL New World Mobility Group merger	**-**	18
Closing balance	**6,976**	7,179

2. Net tangible assets per security

	Telstra Group	
	As at 30 June	
	2007	2006
	¢	¢
Net tangible assets per security	**45.8**	52.0

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

Entities over which control has been gained during the period

- On 25 August 2006, we established a new entity named Telstra International Holdings Limited. This entity is the holding company for the SouFun group of companies.

- On 31 August 2006, we acquired 55% (on an undiluted basis) of the issued capital of SouFun Holdings Ltd (SouFun) for a total consideration of $337 million including acquisition costs. SouFun included the following controlled entities:

  - SouFun.com (Shenzhen) Ltd;
  - SouFun.com (Tianjin) Ltd;
  - SouFun.com (Chongqing) Ltd;
  - SouFun.com (Guangzhou) Ltd;
  - SouFun.com (Shanghai) Ltd;
  - SouFun Network Technology (Beijing) Co. Ltd;
  - SouFun Media Technology (Beijing) Co. Ltd;
  - Beijing SouFun Information Consultancy Co. Ltd;
  - China Index Academy Limited;
  - Beijing Jia Tian Xia Advertising Co. Ltd;
  - Beijing SouFun Internet Information Service Co. Ltd;
  - Beijing SouFun Science and Technology Development Co. Ltd;
  - Beijing China Index Information Co. Ltd; and
  - Shanghai Jia Biao Tang Advertising Co. Ltd.

  SouFun is China's largest online real estate, home furnishings and home improvements portal.

Other acquisitions

- On 22 June 2007, Telstra acquired an additional 25% ownership interest in 1300 Australia Pty Ltd for $12 million, taking our overall ownership interest from 60% to 85%.

- On 5 June 2007, our controlled entity KAZ Group Pty Limited purchased the remaining 40% shareholding in Enhanced Processing Technologies Pty Ltd to increase its shareholding to 100% for a total consideration of $1 million. Enhanced Processing Technologies Pty Ltd was previously a jointly controlled entity.

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

Other acquisitions (continued)

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

  Under the merger agreement, Telstra CSL Limited issued new shares to New World Mobility Holdings Limited (NWMHL) 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%.

- During fiscal 2007, we were required to make a cash payment of $21 million to NWMHL following finalisation of the subscription amount which represented an adjustment to the $44 million cash received in fiscal 2006. In accordance with the terms of the merger, this adjustment was primarily based on the final working capital position of the New World Mobility Group at the completion date.

Entities over which control has been lost during the period

- On 31 August 2006, our controlled entity KAZ Group Pty Limited sold its 100% shareholdings in controlled entities Australian Administration Services Pty Ltd (AAS) and Atune Financial Solutions Pty Ltd for a total consideration of $235 million. The sale of AAS included AAS Superannuation Services Pty Ltd.

- On 28 November 2006, our controlled entity Sensis Pty Ltd sold its 61% shareholding in our controlled entity Platefood Limited for a total consideration of $10 million.

Appendix 4E Year ended 30 June 2007

4. Details of investments in joint ventures and associated entities

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

		Telstra Group	
		Ownership interest	
		As at 30 June	
		2007	2006
Name of entity	**Principal activities**	**%**	%
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Limited	Customer service	**50.0**	50.0
FOXTEL Management Pty Limited	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (i)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (ii)	Toll free number portability in New Zealand	**33.3**	33.3
Money Solutions Pty Ltd (b)	Financial advice and education services	**-**	50.0
Enhanced Processing Technologies Pty Ltd (a)	Business process outsourcing	**-**	60.0
3GIS Pty Ltd (i)	Management services	**50.0**	50.0
3GIS Partnership (i)	3G network services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (ii) (c)	Regional roaming provider	**10.8**	12.5
m.Net Corporation Limited	Mobile phone content provider	**26.3**	26.3
Associated entities			
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (i)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited	Electronic transactions solutions	**47.6**	47.6
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0
LinkMe Pty Ltd (c)	Internet recruitment provider	**41.3**	40.0

(i) Balance date is 31 December.

(ii) Balance date is 31 March.

Unless noted, all investments are incorporated in Australia.

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

(a) Investments no longer equity accounted

- On 5 June 2007, our controlled entity KAZ Group Pty Limited purchased the remaining 40% shareholding in Enhanced Processing Technologies Pty Ltd to increase its shareholding to 100% for a total consideration of $1 million. Prior to this date Enhanced Processing Technologies Pty Ltd was a jointly controlled entity and was equity accounted.

(b) Sale of investments

- On 31 August 2006, our controlled entity KAZ Group Pty Limited sold its 100% shareholdings in controlled entities Australian Administration Services Pty Ltd (AAS) and Atune Financial Solutions Pty Ltd for a total consideration of $235 million. Refer to note 29 in our financial statements lodged with this document for further details.

  The sale also included AAS's 50% shareholding in a jointly controlled entity Money Solutions Pty Ltd.

(c) Other changes in jointly controlled and associated entities

- On 18 June 2007, our investment in Bridge Mobile Pte Ltd decreased from 12.5% to 10.8%. The decrease was due to a dilution in our shareholding.

- In the 2007 financial year, our investment in LinkMe Pty Ltd increased from 40% to 41.3%. The increase was due to a purchase of additional shares for $1 million.

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

	Telstra Group	
	Year ended 30 June	
	2007	2006
	$m	$m
Net (loss)/profit from jointly controlled and associated entities has been contributed by the following entities:		
Jointly controlled entities		
- FOXTEL Partnerships	**-**	(5)
- Xantic B.V.	**-**	12
	-	7
Associated entities		
- Keycorp Limited	**(6)**	(1)
- LinkMe Pty Ltd	**(1)**	(1)
	(7)	(2)
	(7)	5

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

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

Balance Sheet

We continue to maintain a strong balance sheet with net assets of $12,580 million, falling slightly from $12,834 million at 30 June 2006. The decrease in net assets of $254 million comprised an increase in total assets of $1,651 million, offset by an increase in our total liabilities of $1,905 million.

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

- Cash and cash equivalents increased by $134 million to $823 million, due mainly to an increase in bank deposits and bills of exchange greater than 90 days;
- Other current assets increased by $320 million to $4,530 million, driven by trade debtors increasing consistent with revenue activity, network inventory & inventory on hand primarily driven by increased stock on hand to support the Next G™ network launch. This was offset by a decline in accrued revenue;
- Property, plant and equipment increased $1,015 million mainly due to additions exceeding depreciation as a result of the increased capital expenditure;
- Intangibles increased due to goodwill acquired on acquisition of 55% (on an undiluted basis) of the issued capital of SouFun Holdings Ltd in August 2006, partially offset by intangibles removed from the balance sheet on divestment of Australian Administration Services Pty Ltd, which also occurred in August 2006;
- Other intangibles increased by $449 million mainly due to the acquisition of software assets exceeding amortisation for the period; and
- Other non-current assets decreased by $320 million to $1,290 million, due mainly to decrease in the actuarially determined value of the defined benefit pension asset and a decrease in our cross currency swap receivables in line with currency movements and our hedging requirements. Interest rate swaps and finance lease debtors arising from our solutions management business partially offset the decrease.

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

- Total current and non current borrowings increased by $938 million to $14,362 million, mainly as a result of an increase in overseas loans due to a long term bond issue of 1 billion Euro in March 2007. There were also increases in Telstra bonds and domestic loans due to two new issues taking place in August and December 2006 arising from payment of the final dividend;
- Other current liabilities increased by $774 million, mainly after higher accruals and payables due to higher levels of construction activity undertaken, compared to the levels that occurred in 2006 fiscal year. Also contributing to the increase was higher derivative liabilities, partially offset by a reduction in the redundancy provision; and
- Other non-current liabilities increased by $193 million mainly due to changes in our cross currency swap position and interest rate swap position, partially offset by decreases in deferred tax liability and provision for restructuring costs.

Cash Flow Statement

We reported a strong free cash flow position, which enabled the company to continue to fund our transformation strategy and the acquisition of the SouFun Group. We continue to source cash through ongoing operating activities and careful capital and cash management.

Our cash flow before financing activities (free cash flow) position remains strong despite declining to $2,899 million in the year from $4,579 million in the prior year. This decline was driven by increased cash used in investing activities as we continue with our network and information technology platform transformation.

Cash used in investing activities of $5,621 million increased by $1,647 million over the prior year. The increase is mainly attributable to capital expenditure to upgrade our telecommunications networks and improve the systems used to operate our networks.

Our cash used in financing activities was $2,757 million, representing mainly the funding of dividend payments and the refinancing of our maturing debt, offset by net proceeds from borrowings received from a number of our private placements.

6. Commentary on the results for the period

Income Statement

Our net profit for the year was $3,275 million, representing an increase of 2.9% on the prior year's net profit of $3,183 million. Earnings before interest and income tax expense (EBIT) for fiscal 2007 was $5,779 million, representing an increase of 5.1% on the prior year result of $5,497 million.

Total income (excluding finance income) for the year increased by 3.9% to $23,960 million (2006: $23,062 million). Income growth was mainly attributable to:

- mobile goods and services growth (including wireless broadband) of $695 million, up 13.9%;
- an increase in Internet revenue (including wireless broadband) of $508 million, up 35.4%;
- CSL New World income of $168 million, up 20.2%; and
- Sensis' total income growth of $147 million, up 8.0%.

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

Income Statement (continued)

These increases have been partially offset by a decline in PSTN revenues of $309 million or 4.1% as the market continues to move towards mobile and broadband products. However, this is now reducing at a significantly lower rate than prior periods.

Mobile goods and services revenue increased largely due to the continued growth in the number of subscribers, increased demand for 3GSM services and data services and higher minutes of use offset by continued pricing pressures.

Internet revenue experienced growth due to an increased use of IP services by business customers (medium to large enterprises), the introduction of new products to meet customer needs and the increased use of the internet by businesses at greater bandwidth.

In assessing the performance of the mobiles and broadband products we have changed the presentation from the prior year. As wireless data cards operate on the mobile network and provide a broadband service we have grossed up the mobile and broadband revenues and physicals to include the results from EVDO and Next G™ data cards and data packs.

In fiscal 2007 wireless broadband revenues were $284 million, up $211 million over fiscal 2006. This revenue is included in both the mobile goods and services revenue and internet revenue. This gross up of wireless broadband revenues is removed from the other sales and services revenue line to ensure there is no double counting.

Sensis increased over the prior year due to the introduction of new initiatives within the print directories, increased customer numbers and the purchase of SouFun in August 2006 and Adstream in February 2006.

Total expenses (before finance costs, income tax expense and our share of profit/(loss) from jointly controlled and associated entities) increased by 4.4% to $14,092 million from $13,492 million in the prior year.

Goods and services purchased increased by 9.6% to $5,151 million in fiscal 2007 (2006: $4,701 million) due to the following:

- higher mobile handset subsidies and cost of good sold, which was attributable to an increase in the take up of handsets on subsidised plans as well as higher average subsidies offered;
- the inclusion of a full year of expenses relating to New World PCS, which merged with CSL in the second half of the fiscal 2006;
- the increase in other cost of goods sold due to higher volumes of handset sales and higher average cost per handset as a result of the Next G™ network launch and the associated marketing campaigns;
- the increase in service fees led by an $18 million rise in bundling of pay television services due to growth in bundled FOXTEL subscribers and price increases;
- increase in usage commissions largely driven by higher commissionable mobile revenue in fiscal 2007 and increased uptake of non-mobile related products;
- growth in dealer performance commissions mainly attributable to a higher number of new mobile activations and re-contracts through external dealer channels as a result of increased market campaign activity;
- increases in managed services costs mainly attributed to increased project management professional service costs by third party suppliers; and
- decreases in mobile terminating access rate and lower payments made to REACH, which in turn reduced our share of expenses.

Labour expenses decreased by 8.0% to $4,017 million (2006: $4,364 million). The lower labour costs were due to increased levels of redundancy, a reduction in redundancy costs, lower overtime payments offset by higher contractor and agency payments, a reduction of worker's compensation costs offset by an increase due to pay rises.

Other expenses increased by 11.2% to $4,924 million (2006: $4,427 million) due to the following:

- increased service contracts and other agreements largely due to costs associated with our transformational activities and payments to Brightstar for management of our channel logistics operation centre, which did not exist in fiscal 2006;
- higher promotions and advertising costs relating to spending on the launch of the Next G™ network and Next IP™ network as well as more marketing activity of our wireless and other BigPond products;
- the full expenses attributable to the merger of CSL with New World PCS, the consolidation of expenses from SouFun in the current fiscal year, and the acquisition of Adstream in the second half of the prior fiscal year;
- increased costs associated with our transformation initiatives, including higher software, training and electricity and property maintenance costs associated with running multiple networks; and
- increased expenses associated with the impairment of the Trading Post mastheads and increased bad and doubtful debtors expense as a result of impairment and increased aged debts associated with mobiles and broadband customers.

Income tax expense increased by 2.6% to $1,417 million (2006: $1,381 million) in fiscal 2007 mainly as a result of the higher profit. The effective tax rate in the current year was 30.2% compared with the prior year rate of 30.3%.

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

Investor return and other key ratios

Our basic earnings per share increased to 26.3 cents per share in fiscal 2007 from 25.7 cents per share in the prior year. The increase was due to higher profit in fiscal 2007. We have declared a final fully franked dividend of 14 cents per share ($1,740 million), bringing dividends declared per share for fiscal 2007 to 28 cents per share. The prior year dividends declared amounted to 34 cents per share.

Other relevant measures of return to investors include the following:

- Return on average assets - 2007: 15.9% (2006: 15.7%)
- Return on average equity - 2007: 26.3% (2006: 24.3%)

Return on average assets and return on average equity are higher in fiscal 2007 primarily due to the increased profit as previously discussed.

Segment information

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

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

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

Telstra Consumer Marketing and Channels segment revenue increased by 7.1% to $9,509 million in fiscal 2007. Revenue growth in this segment was primarily driven by increases in mobile and Internet products. Mobile revenue grew due to increased data, voice services and handset sales. Internet growth was driven by BigPond® broadband, specifically ADSL, cable and wireless. Offsetting mobile and Internet revenue growth was a decline in PSTN, however it was at a slower rate than fiscal 2006, and payphones revenue as a result of competition, product substitution and decreased consumer usage.

Telstra Consumer Marketing and Channels EBIT decreased by 0.7% to $5,593 million in fiscal 2007 driven by increased use of BigPond® broadband and mobiles and a reduced use of high margin PSTN services. The change in customer mix and a continued shift to higher use of mobiles resulted in expense growth in mobile handsets, dealer costs and labour expenses. This is in line with revenue and customer growth in emerging products and services, such as the launch of our 3G network.

Telstra Business revenue increased by 2.5% to $3,241 million in fiscal 2007 primarily due to growth in mobile and data products. Internet and IP revenue growth was due to an increase in subscriber levels and wireless data connectivity has increased since the launch of the Next G™ network. In addition, a slowing in the fixed telephony decline has strengthened the revenue growth.

Telstra Business EBIT increased by 2.0% to $2,592 million in fiscal 2007. This was mainly due to revenue growth and decreased network payment costs in line with a decrease in termination rates. This was partially offset by growth in labour costs, as the workforce was increased in this segment to become fully resourced to meet market opportunities during the set up phase, and growth in cost of goods sold and other directly variable costs associated with the changes in product mix offerings.

Telstra Enterprise and Government's revenue decreased by $2 million to $4,529 million in fiscal 2007, mainly due to reductions in sales revenue from the underlying core carriage business, consisting mainly of a decline in traditional PSTN and ISDN revenues. This has been partially offset by growth in domestic Information and Communication Technology (ICT) services, Internet and IP products, and offshore revenues. This segment continues to experience change in usage patterns with traditional product usage migrating to alternative access offerings such as wireless, broadband and other IP product offerings.

Telstra Enterprise and Government EBIT decreased by $27 million to $2,609 million in fiscal 2007 reflecting a changing product mix, which resulted in reductions in sales volumes of higher margin core access technologies, and growth in lower margin ICT services and offshore revenues. This reduction was offset by the profit recorded on the disposal of Australian Administration Services Pty Ltd and Atune Financial Solutions Pty Ltd during the year.

Telstra Wholesale segment revenue increased by 1.9% to $2,957 million in fiscal 2007 driven by continuing demand for broadband services, and an increase in wholesale basic access revenue and GSM domestic roaming revenues. Revenue growth was experienced in several products such as equipment and business access, as a variety of carriers extend their DSL capabilities in preparation for building their own infrastructure via unconditioned local loop and spectrum sharing. Growth in revenue was partly offset by a decrease in PSTN revenues due to ongoing product substitution to mobiles and broadband as well as a backdated mobiles terminating access rate adjustment.

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

Segment information (continued)

Telstra Wholesale EBIT increased by 6.4% to $2,867 million in fiscal 2007 due to revenue growth and a decrease in expenses. The expense decline consisted of a decrease in domestic outpayments due to the backdated mobiles terminating access rate adjustment from 18 cents to 15 cents and further rate reduction from 15 cents to 12 cents in the second half of fiscal 2007. Decreased labour expenses were due to lower staff numbers in line with our business transformation strategy. In addition, service contract costs were lower due to the slow down in market related services and information technology support and maintenance charges. The expense decline was partly offset by increased impairment of software which was the result of the cancellation of various uncompleted projects in line with our transformation strategy.

Sensis' segment revenue increased by 7.2% to $1,968 million in fiscal 2007. This was primarily driven by growth in White Pages® print and online services and Yellow Pages® online services. Growth in Sensis' emerging businesses included strong results from Whereis® and Mediasmart. Overall, online sites continued their improved growth driven by rising usage and customer numbers, leading to increased yields. We also experienced strong growth in our voice portfolio. In August 2006, Sensis acquired SouFun Holdings Ltd (SouFun) contributing revenue of $49 million for the fiscal year. Our revenue growth was partially offset by a decline in revenue from our classifieds products largely as a result of increasing competition in the traditional print classifieds market and challenges in the highly competitive on-line classifieds market.

Sensis' EBIT decreased by 12.9% to $752 million in fiscal 2007 mainly due to an impairment charge of $110 million against our Trading Post mastheads. Labour expenses were higher in fiscal 2007, attributable to the growth in staff numbers, primarily due to the acquisition of SouFun. Our amortisation expenses were also higher as a result of the acceleration of depreciation following a revision of the service lives of certain business software programs that will be replaced as part of our transformation initiatives.

Telstra Operations revenue decreased by 20.8% to $243 million in fiscal 2007 driven by a decrease in revenue for NDC construction work and commercial works and damages recoveries. This was partly offset by additional revenue for overdue account fees and additional property lease revenue. Telstra Operations revenue is essentially limited to cost recovery as afforded by regulatory and commercial arrangements. Product revenue is earned by the customer facing segments.

Telstra Operations EBIT is a net cost as this segment does not recover all the costs it incurs on behalf other segments. EBIT loss decreased by 6.2% to $3,913 million in fiscal 2007 largely due to fiscal 2006 including redundancy and restructuring costs associated with the closure of old platforms and project impairments due to the cancellation of certain capital program initiatives. Additionally, expenses decreased in fiscal 2007 due to a reduction in employee numbers, lower levels of fault and maintenance volumes and management's continued focus on lower discretionary spending and cost reduction initiatives. This was partially offset by increased expenses associated with our transformation program.

Telstra International revenue increased 8.4% to $1,606 million due to an increase in revenue from the CSL New World Mobility Group (CSLNW) partially offset by a decline in revenues from TelstraClear. CSLNW revenue was higher, predominantly, due to a full year's result of the merged entity being included in fiscal 2007, compared to the fiscal 2006 result which included the merged group for only part of the year as the merge with New World Mobility Group occurred at the end of March 2006. Growth was achieved in mobile services revenue, including data, international voice and prepaid revenue. TelstraClear's revenue decreased primarily as a result of lower calling revenue due to a reducing customer base, competitive pressures, and adverse foreign exchange movements offset by higher access revenue.

Telstra International EBIT decreased by $95 million to $61 million due to a reduction in EBIT from the International Head Office and TelstraClear, partially offset by an increase in EBIT from CSLNW. The decrease in the International Head Office Group was mainly due to the sale of our shareholding in Xantic B.V. being included in fiscal 2006. The decrease in TelstraClear was driven by lower sales revenue and impairment of certain mobility assets. The improvement of EBIT in CSLNW was primarily due to the inclusion of a full year's results after the merger, offset by accelerated depreciation of 2G core mobility assets and increased handset subsidies due to aggressive marketing offers.

Other information

No significant events have occurred after balance date for the year ended 30 June 2007, other than:

Dividend declaration

On 9 August 2007, 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 24 August 2007 with payment to be made on 21 September 2007. Shares will trade excluding the entitlement to the dividend on 20 August 2007.

A provision for dividend payable has been raised as at the date of declaration, amounting to $1,740 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 2007.

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

Dividend Reinvestment Plan

On 4 July 2007, Telstra Corporation Limited announced the commencement of a dividend reinvestment plan (“DRP”). The election date for participation in the DRP is 24 August 2007.

Seven Network Limited and C7 Pty Limited litigation

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.

On 27 July 2007 the Federal Court dismissed Seven's case on all grounds. Final orders will be made, after the parties make submissions on costs. The decision could be subject to appeal by Seven.

7. Statement about the audit status

Our preliminary final report is based on the Telstra Corporation Limited and controlled entities financial report as at 30 June 2007, which has been audited by Ernst & Young. Refer to the 30 June 2007 financial report for the independent audit report to the members of Telstra Corporation Limited.