Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2007

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Income Statement

for the year ended 30 June 2007

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Income					
Revenue (excluding finance income)	6	**23,709**	22,734	**20,662**	20,447
Other income	6	**251**	328	**201**	163
		23,960	23,062	**20,863**	20,610
Expenses					
Labour	7	**4,017**	4,364	**3,074**	3,483
Goods and services purchased	7	**5,151**	4,701	**3,634**	3,276
Other expenses	7	**4,924**	4,427	**4,517**	4,562
		14,092	13,492	**11,225**	11,321
Share of net loss/(gain) from jointly controlled and and associated entities	30	**7**	(5)	**-**	-
		14,099	13,487	**11,225**	11,321
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**9,861**	9,575	**9,638**	9,289
Depreciation and amortisation	7	**4,082**	4,078	**3,588**	3,648
Earnings before interest and income tax expense (EBIT)		**5,779**	5,497	**6,050**	5,641
Finance income	6	**57**	74	**47**	71
Finance costs	7	**1,144**	1,007	**1,147**	990
Net finance costs		**1,087**	933	**1,100**	919
Profit before income tax expense		**4,692**	4,564	**4,950**	4,722
Income tax expense	9	**1,417**	1,381	**1,512**	1,483
Profit for the year		**3,275**	3,183	**3,438**	3,239
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	3	**26.3**	25.7		
Diluted	3	**26.2**	25.7		

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

Balance Sheet

as at 30 June 2007

	Note	Telstra Group As at 30 June 2007 $m	Telstra Group As at 30 June 2006 $m	Telstra Entity As at 30 June 2007 $m	Telstra Entity As at 30 June 2006 $m
Current assets					
Cash and cash equivalents	10	**823**	689	**546**	474
Trade and other receivables	11	**3,891**	3,721	**3,429**	3,364
Inventories	12	**332**	224	**274**	175
Derivative financial assets	16	**41**	21	**41**	21
Prepayments		**266**	244	**204**	172
Total current assets		**5,353**	4,899	**4,494**	4,206
Non current assets					
Trade and other receivables	11	**190**	146	**273**	186
Inventories	12	**17**	20	**17**	20
Investments - accounted for using the equity method	13	**16**	23	**12**	18
Investments - other	13	**3**	-	**5,890**	5,953
Property, plant and equipment	14	**24,607**	23,592	**22,723**	21,735
Intangible assets	15	**6,625**	6,123	**3,084**	2,465
Deferred tax assets	9	**1**	1	**-**	-
Derivative financial assets	16	**249**	391	**249**	391
Defined benefit assets	28	**814**	1,029	**784**	1,004
Total non current assets		**32,522**	31,325	**33,032**	31,772
Total assets		**37,875**	36,224	**37,526**	35,978
Current liabilities					
Trade and other payables	17	**4,207**	3,570	**3,857**	3,065
Borrowings	18	**2,743**	1,982	**3,616**	3,387
Current tax liabilities		**449**	428	**413**	400
Provisions	19	**628**	737	**568**	679
Derivative financial liabilities	20	**177**	12	**177**	12
Revenue received in advance		**1,230**	1,170	**968**	919
Total current liabilities		**9,434**	7,899	**9,599**	8,462
Non current liabilities					
Trade and other payables	17	**195**	197	**58**	65
Borrowings	18	**11,619**	11,442	**11,590**	11,409
Deferred tax liabilities	9	**1,513**	1,705	**1,643**	1,833
Provisions	19	**834**	974	**787**	924
Derivative financial liabilities	20	**1,328**	768	**1,328**	768
Revenue received in advance		**372**	405	**368**	400
Total non current liabilities		**15,861**	15,491	**15,774**	15,399
Total liabilities		**25,295**	23,390	**25,373**	23,861
Net assets		**12,580**	12,834	**12,153**	12,117
Equity					
Share capital	21	**5,611**	5,569	**5,611**	5,569
Reserves	22	**(258)**	(160)	**232**	210
Retained profits	23	**6,976**	7,179	**6,310**	6,338
Equity available to Telstra Entity shareholders		**12,329**	12,588	**12,153**	12,117
Minority interests		**251**	246	**-**	-
Total equity		**12,580**	12,834	**12,153**	12,117

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

Statement of Recognised Income and Expense

for the year ended 30 June 2007

	Note	Telstra Group Year ended 30 June 2007 $m	Telstra Group Year ended 30 June 2006 $m	Telstra Entity Year ended 30 June 2007 $m	Telstra Entity Year ended 30 June 2006 $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	22	**(552)**	327	**(551)**	327
Net hedging losses/(gains) removed from equity and included in profit for the year	22	**573**	(420)	**572**	(421)
Net hedging losses removed from equity and included in property, plant and equipment	22	**11**	-	**10**	-
Retained profits					
Actuarial gain on defined benefit plans	28	**23**	962	**17**	945
		(90)	834	**48**	851
Income tax on equity items		**(15)**	(256)	**(13)**	(256)
Net (expense)/income recognised directly in equity		**(105)**	578	**35**	595
Profit for the year		**3,275**	3,183	**3,438**	3,239
Total recognised income for the year		**3,170**	3,761	**3,473**	3,834
Attributable to:					
Telstra Entity		**3,161**	3,757		
Minority interest		**9**	4		
		3,170	3,761		
Effects of changes in accounting policy		**-**	74	**-**	77

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

Cash Flow Statement

for the year ended 30 June 2007

	Note	Telstra Group Year ended 30 June 2007 $m	Telstra Group Year ended 30 June 2006 $m	Telstra Entity Year ended 30 June 2007 $m	Telstra Entity Year ended 30 June 2006 $m
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax (GST))		**26,187**	25,191	**22,707**	21,890
Payments to suppliers and to employees (inclusive of GST)		**(16,049)**	(14,756)	**(12,925)**	(11,725)
Net cash generated by operations		**10,138**	10,435	**9,782**	10,165
Income taxes paid		**(1,618)**	(1,882)	**(1,584)**	(1,863)
Net cash provided by operating activities	24	**8,520**	8,553	**8,198**	8,302
Cash flows from investing activities					
Payments for:					
- property, plant and equipment		**(4,657)**	(3,636)	**(4,172)**	(3,483)
- intangible assets		**(995)**	(619)	**(802)**	(502)
Capital expenditure (before investments)		**(5,652)**	(4,255)	**(4,974)**	(3,985)
- shares in controlled entities (net of cash acquired)	24	**(326)**	(43)	**(13)**	(27)
- payments for other investments		**(4)**	(5)	**(2)**	-
Total capital expenditure		**(5,982)**	(4,303)	**(4,989)**	(4,012)
Proceeds from:					
- sale of property, plant and equipment		**32**	50	**47**	72
- sale of intangible assets		**2**	-	**2**	-
- sale of shares in controlled entities (net of cash disposed)	24	**218**	4	**-**	-
- sale of other investments		**14**	89	**13**	89
Proceeds from finance lease principal amounts		**84**	30	**84**	30
Net cash consideration from CSL New World Mobility merger	24	**(21)**	42	**-**	-
Issue of additional shares by controlled entities		**-**	6	**-**	-
Proceeds from share buy-back by jointly controlled and associated entities		**-**	34	**-**	34
Loan to jointly controlled and associated entities		**(24)**	-	**-**	-
Interest received		**56**	74	**48**	71
Net cash used in investing activities		**(5,621)**	(3,974)	**(4,795)**	(3,716)
Operating cash flows less investing cash flows		**2,899**	4,579	**3,403**	4,586
Cash flows from financing activities					
Proceeds from borrowings		**5,206**	3,241	**5,414**	3,280
Proceeds from Telstra bonds and domestic loans		**373**	-	**373**	-
Repayment of borrowings		**(3,776)**	(2,224)	**(4,570)**	(2,303)
Repayment of Telstra bonds and domestic loans		**-**	(517)	**-**	(517)
Repayment of finance lease principal amounts		**(42)**	(31)	**(39)**	(30)
Staff repayments of share loans	21	**17**	24	**17**	24
Purchase of shares for employee share plans	21	**-**	(6)	**-**	(6)
Finance costs paid		**(1,056)**	(945)	**(1,047)**	(958)
Dividends paid	4	**(3,479)**	(4,970)	**(3,479)**	(4,970)
Net cash used in financing activities		**(2,757)**	(5,428)	**(3,331)**	(5,480)
Net increase/(decrease) in cash and cash equivalents		**142**	(849)	**72**	(894)
Cash and cash equivalents at the beginning of the year		**689**	1,534	**474**	1,368
Effects of exchange rate changes on cash and cash equivalents		**(8)**	4	**-**	-
Cash and cash equivalents at the end of the year	24	**823**	689	**546**	474

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
- 2007 means fiscal 2007 and similarly for other fiscal years.

The financial report of the Telstra Group and the Telstra Entity for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 9 August 2007.

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. This financial report also complies with Accounting Standards and Interpretations published by the International Accounting Standards Board.

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, 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.

1.2 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.

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 performance.

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.

1.3 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. Telstra is an entity to which this class order applies.

Notes to the Financial Statements (continued)

2. Summary of accounting policies

2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2007.

(i) Lease arrangements

UIG 4: "Determining Whether an Arrangement Contains a Lease" (UIG 4) became applicable to annual reporting periods beginning on or after 1 January 2006. We have applied this interpretation in our financial report for the year ended 30 June 2007 including the restatement of our comparative information.

UIG 4 requires entities to assess whether 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 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.

Some of our solutions management and outsourcing arrangements that we enter into as a service provider meet the requirements of UIG 4 as we provide the customer with the right to use dedicated equipment. We have applied this new accounting policy to these arrangements in existence at the start of our comparative period (1 July 2005). We have assessed that a number of the embedded leases in existence at 1 July 2005 are finance leases in accordance with our current accounting policy for leases and AASB 117: "Leases" as substantially all of the risks and benefits incidental to ownership of this equipment are transferred to the customer. This required property, plant and equipment identified as part of an UIG 4 arrangement to be transferred to finance lease receivable and for lease accounting to be applied post this date.

Before UIG 4 applied, we did not separately account for embedded leases within our service agreements. Fixed and leased assets were previously recognised in our balance sheet and these assets were depreciated or amortised over their economic lives. Revenue associated with the entire service agreement was accounted for in accordance with our accounting policy on service revenue.

Details of the impact on the transition to UIG 4 and to comparative information were disclosed in our 31 December 2006 half-year financial report. We have subsequently made certain amendments to those impacts based on further analysis and clarity around the interpretation and application of UIG 4. Specifically, certain arrangements that were initially thought to contain embedded leases at 31 December 2006 have subsequently been determined not to contain a lease per the definition in UIG 4. As such, the revised impacts of UIG 4, as detailed below, are lower than those disclosed in our 31 December 2006 half-year financial report.

The following impacts were recorded on the transition to UIG 4 and are applicable to both Telstra Group and Telstra Entity:

Opening Balance Sheet	Adjustments as at 1 July 2005 $m
Assets	
Increase in trade and other receivables (current)	18
Increase in trade and other receivables (non current)	51
Decrease in property, plant and equipment	(27)
	42
Liabilities	
Increase in borrowings (current)	11
Increase in borrowings (non current)	31
	42

The following income statement and balance sheet impacts were recorded for the year ended 30 June 2006 and are applicable to both Telstra Group and Telstra Entity:

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

There has been no impact on basic and diluted earnings per share for the year ended 30 June 2006 as a result of the adoption of UIG 4.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.1 Change in accounting policies (continued)

(i) Lease arrangements (continued)

Balance Sheet	Adjustments as at 30 June 2006 $m
Assets	
Increase in trade and other receivables (current)	20
Increase in trade and other receivables (non current)	59
Decrease in property, plant and equipment	(30)
Increase in total assets	49
Liabilities	
Increase in borrowings (current)	13
Increase in borrowings (non current)	33
Increase in deferred tax liabilities	1
Increase in total liabilities	47
Increase in net assets	2
Equity	
Increase in retained profits	2
Increase in total equity	2

Comparative note disclosures have been restated based on our interpretation of UIG 4. Note 11 discloses details of our finance lease receivable and note 26 discloses our lease commitments.

We have also restated the cash flow statement for fiscal 2006 based on our interpretation of UIG 4. For the Telstra Group and Telstra Entity, net cash provided by operating activities has decreased by $9 million, net cash used in investing activities has decreased by $38 million and net cash used in financing activities has increased by $29 million. There is no impact of UIG 4 on net cash.

(ii) Financial guarantees

AASB 2005-9: "Amendments to Australian Accounting Standards" became applicable to annual reporting periods beginning on or after 1 January 2006. We have applied this standard in our financial report for the year ended 30 June 2007.

From 1 January 2007 liabilities arising from the issue of financial guarantee contracts need to be recognised on the balance sheet. The financial guarantee contracts that we have identified were not significant and as such there has been no impact on our balance sheet, income statement or cash flow statement.

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. Refer to note 2.22 for further details.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.3 Foreign currency translation (continued)

(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.

Refer to note 2.22 for details regarding our accounting policy for foreign currency monetary items and derivative financial instruments that are used to hedge our net investment in entities which have a functional currency not in Australian dollars.

2.4 Cash and cash equivalents

Cash and cash equivalents include 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.

2.5 Trade and other receivables

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 using the effective interest method.

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.

For the majority of inventory items we assign cost using the weighted average cost basis. For materials used in the production of directories the 'first in first out' basis is used for assigning cost.

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 2.17(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 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 2.22.

(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.

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.

(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

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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.8 Investments (continued)

(d) Listed securities and investments in other corporations (continued)

Fair values are calculated on the following basis:

- 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 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.

Purchases and sales of investments are recognised on settlement date being the date on which we receive or deliver an asset.

2.9 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 wherever 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 reduction 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.

(b) Financial assets

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 impaired financial assets 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.10 Property, plant and equipment

(a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.10(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.

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.

(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	
	2007	2006
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	**1 - 25**	2 - 25
Switching equipment	**2 - 12**	4 - 12
Mobile equipment	**1 - 10**	2 - 10
Cables	**4 - 25**	5 - 25
Ducts and pipes - main cables	**40**	40
- distribution	**30**	30
Other communications plant	**1 - 30**	1 - 30
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 values 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.

The net effect of the reassessment of service lives for fiscal 2007 was a decrease in our depreciation expense of $26 million (2006: $66 million increase) for the Telstra Group and a decrease of $41 million (2006: $66 million increase) for the Telstra Entity.

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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.11 Leased plant and equipment

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.

(a) Telstra as a lessee

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.

(b) Telstra as a lessor

Where we lease non current assets via a finance lease, a lease receivable equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term is recognised at the beginning of the lease term. Finance lease payments are allocated between interest revenue and a reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.12 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 2.9 on an annual basis or 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.

(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 2.9 on an annual basis, or where an indication of impairment exists.

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

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.12 Intangible assets (continued)

(d) Deferred expenditure

Deferred expenditure mainly includes costs incurred for basic access installation and connection 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. Handset subsidies are considered to be separate units of accounting and expensed as incurred.

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

(e) Amortisation

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

	Telstra Group	
	As at 30 June	
	2007	2006
Identifiable intangible assets	Expected benefit (years)	Expected benefit (years)
Software assets	**6**	6
Patents and trademarks	**18**	19
Licences	**14**	12
Brandnames	**18**	19
Customer bases	**10**	11
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 2007 was a decrease in our amortisation expense of $25 million (2006: $160 million increase) for the Telstra Group and a decrease of $25 million (2006: $145 million increase) for the Telstra Entity.

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.

2.13 Trade and other payables

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

2.14 Borrowings

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.

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

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.

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 at the completion of the transaction.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.14 Borrowings (continued)

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include commercial paper borrowings, Telstra bonds and domestic loans, 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 instruments 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.

2.15 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.

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) 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 in respect of 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.16 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 2.21 for further details regarding our accounting for employee share plans.

2.17 Revenue recognition

Sales revenue

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, 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.

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 in accordance with note 2.12(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 (2006: 5 years).

(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 from 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.17 Revenue recognition (continued)

(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.

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.

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 described above.

2.18 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 the 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 with 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, jointly controlled and associated 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, jointly controlled and associated 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.18 Taxation (continued)

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 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 arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer within the group.

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 assumed 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 assumed by the Telstra Entity are recorded as dividend revenue.

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 consolidated 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 consolidated 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.

2.19 Earnings per share

(a) Basic earnings per share

Basic earnings per share (EPS) is determined by dividing the profit attributable to ordinary shareholders after tax, 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 after tax 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).

2.20 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.20 Post-employment benefits (continued)

(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.

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.

Fair value is used to determine the value of the plan assets at reporting date and 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 current and past employee services. This obligation is influenced by many factors, including final salaries and employee turnover. We engage 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 equity via retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on 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.

We 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 the actuarial calculation have a significant impact on the reported amount of our defined benefit plan assets. 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.

2.21 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.22 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.

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.

We formally designate and 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.

Purchases and sales of derivative financial instruments are recognised on trade date being the date on which we commit to purchase or sell an asset.

(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 hedging 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.

(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 hedging 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.22 Derivative financial instruments (continued)

(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.

2.23 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.

2.24 Recently issued accounting standards to be applied in future reporting periods

The accounting standards and AASB Interpretations that have not been early adopted for the year ended 30 June 2007, but will be applicable to the Telstra Group and Telstra Entity in future reporting periods are detailed below. Apart from these standards and interpretations, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

Borrowing costs

AASB 123: "Borrowing Costs" was revised in May 2007, with the revised standard becoming applicable to annual reporting periods beginning on or after 1 January 2009. A related omnibus standard AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123" makes a number of amendments to other accounting standards as a result of the revised AASB 123 and must be adopted at the same time.

This revised version requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Under our current accounting policy we expense interest in the period it is incurred as permitted under the existing version of AASB 123. The revisions to AASB 123 will decrease finance costs and increase the carrying value of our property, plant and equipment, with a resulting increase in depreciation expense.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

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

Segment reporting

AASB 8: "Operating Segments" is applicable to annual reporting periods beginning on or after 1 January 2009 and replaces AASB 114: "Segment Reporting". A related omnibus standard AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8" makes a number of amendments to other accounting standards as a result of AASB 8 and must be adopted at the same time.

AASB 8 requires entities to determine operating segments based on their internal management reporting structure for the reporting of their financial performance. The adoption of AASB 8 and AASB 2007-3 are not expected to have an impact on our financial results or balance sheet as they are only concerned with disclosure.

Presentation of financial statements

AASB 101: "Presentation of Financial Statements" was revised in October 2006, with the revised standard becoming applicable for reporting periods beginning on or after 1 January 2007. The amendments to AASB 101 bring the requirements of the standard in line with those required by International Accounting Standard IAS 1: "Presentation of Financial Statements".

The adoption of the revised AASB 101 is not expected to have an impact on our financial results as it is only concerned with disclosure.

Reinstatement of options in Australian Accounting Standards

AASB 2007-4: "Amendments to Australian Accounting Standards Arising from ED 151 and Other Amendments" is applicable to reporting periods beginning on of after 1 July 2007. This standard amends a number of existing Australian Accounting Standards by re-introducing accounting treatment options that are included in International Financial Reporting Standards (IFRSs) that were originally removed by the Australian Accounting Standards Board. The standard also removes a number of disclosure requirements that were originally included in Australian Accounting Standards and not required by IFRSs.

The accounting options which are being re-introduced include:

- permitting an entity to adopt the indirect method of presenting its cash flow statement;
- permitting an entity to apply proportionate consolidation to interests in joint venture entities; and
- permitting an entity to record non-monetary grants at nominal amounts and to present assets and expenses net of related grants.

Telstra is not expecting to apply any of these options.

Service concession arrangements

AASB Interpretation 12: "Service Concession Arrangements" is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation provides guidance on the accounting by operators for public-to private service concession arrangements.

The release of this interpretation resulted in an amendment to UIG 4, which scoped out service concessions arrangements from applying UIG 4. This led to UIG 4 being reissued as AASB Interpretation 4: "Determining Whether an Arrangement Contains a Lease".

The adoption of AASB Interpretation 12 is not expected to impact on our financial results. The requirements in AASB Interpretation 4 will not result in any changes to the accounting of UIG 4 as described in note 2.1.

Other standards

The International Financial Reporting Standards Committee (IFRIC) issued IFRIC 13 "Customer Loyalty Programs" in June 2007. IFRIC 13 prescribes the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services. IFRIC 13 is applicable for annual reporting periods beginning on or after 1 July 2008. Management has not yet assessed the impact of this interpretation.

IFRIC issued IFRIC 14 "IAS 19 - The Limit on a Defined Asset, Minimum Funding Requirements and their Interaction" in July 2007. IFRIC 14 aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan. IFRIC 14 is applicable for annual reporting periods beginning on or after 1 January 2008. Management has not yet assessed the impact of this interpretation.

Notes to the Financial Statements (continued)

3. Earnings per share

	Telstra Group Year ended 30 June 2007	
	2007	2006
	¢	¢
Basic earnings per share	**26.3**	25.7
Diluted earnings per share	**26.2**	25.7
	$m	$m
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year attributable to equity holders of Telstra Entity	**3,253**	3,183
	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	**12,375**	12,366
Effect of dilutive employee share instruments (b)	**32**	35
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**12,407**	12,401

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

(b) In fiscal 2007 and fiscal 2006, 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 2007 and fiscal 2006, 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

	Note	Telstra Entity Year ended 30 June 2007 $m	2006 $m
Dividends paid			
Previous year final dividend paid		**1,739**	1,739
Previous year special dividend paid with the final dividend		**-**	746
Interim dividend paid		**1,740**	1,739
Special dividend paid with the interim dividend		**-**	746
Total dividends paid	23	**3,479**	4,970
Dividends paid per ordinary share		**¢**	¢
Previous year final dividend paid		**14.0**	14.0
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
Total dividends paid		**28.0**	40.0

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

Dividends declared per ordinary share

Our dividends declared per share in respect of fiscal year are detailed below:

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

(a) As our final dividend for fiscal 2007 was not declared, determined or publicly recommended by the Board as at 30 June 2007, 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 35 for further details.

Notes to the Financial Statements (continued)

4. Dividends (continued)

	Telstra Entity	
	Year ended 30 June	
	2007	2006
	$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)	**98**	6
Franking credits that will arise from the payment of income tax payable as at 30 June (b)	**413**	400
Franking credits and exempting credits that we may be prevented from distributing in the next fiscal year	**(24)**	(24)
	487	382
Franking debits that will arise on the payment of dividends declared after 30 June (c)		
Final dividend	**746**	745

(a) One franking account and one exempting account is maintained by the Telstra Entity for the tax consolidated group.

As at 30 June 2007, the Telstra Entity had a combined exempting and franking account balance of $98 million (2006: $6 million). This total combines the surplus in our franking account of $74 million (2006: deficit of $18 million) and a surplus of $24 million (2006: $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 were required to pay franking deficit tax of $18 million, which eliminated the deficit in the franking account balance and was 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. As a result of these restrictions, it is unlikely that we will be able to distribute our exempting credits.

Additional franking credits will arise when the Telstra Entity pays tax instalments during fiscal 2008, relating to the fiscal 2007 and 2008 income tax years. Franking credits will be used when the Telstra Entity pays its 2007 final ordinary dividend during fiscal 2008.

(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 2007 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. Refer to note 35 for further details in relation to our dividends declared subsequent to year end.

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 2008, will be sufficient to cover the franking debits arising from our final dividend.

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 reporting purposes, our TelstraClear group (TelstraClear) and our CSL New World Mobility group (CSL New World) are business units in their own right, with TelstraClear managed by our Telstra Enterprise and Government business unit. Also, the International Head Office group is included as part of our Strategic Marketing business unit. 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

Our business segments during fiscal 2007 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 business segments and segment accounting policies existed in fiscal 2006.

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.

Sensis is responsible for:
- the management and growth of the advertising and directories business, including printed publications, voice and directory services and online products and services; and
- the provision of China's largest online real estate, home furnishings and home improvements portal through the investment in SouFun.

Telstra International (TInt.) consists of the following offshore business operations:
- CSL New World is a 76.4% owned subsidiary in Hong Kong responsible for providing full mobile services including handset sales, voice and data products;
- International Head Office Group is responsible for our Asia-Pacific investments; and
- TelstraClear is our New Zealand subsidiary that provides full telecommunications services to the New Zealand market.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Business segments (continued)

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 local management and control of providing telecommunication products, services and solutions to all consumer customers, except those in Sydney and Melbourne, and 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 consumer retail Internet products, contact centres, and online and mobile content services.

Telstra Media is responsible for:
- the management of our investment in the FOXTEL partnerships; and
- the development and management of the hybrid fibre coaxial (HFC) cable network.

Strategic Marketing is responsible for:
- the co-ordination and delivery of strategy and 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 corporate planning, accounting and administration, treasury, risk management and assurance, investor relations and the office of the company secretary. It also includes providing financial support to all business units and 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.

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.

There are certain items that are not reallocated to alternative segments due to the management accountability framework and internal reporting system. These items are reported within the same 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.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment financial results (continued)

The following narrative further explains our segment results for those individual items that have not been reallocated:

- sales revenue associated with mobile handsets for TC&C, TB and TE&G are mainly allocated to the TC&C segment. 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;
- revenue received in advance in relation to installation and connection fees is allocated totally to TC&C; and
- 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.

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 are recorded as reconciling items within the "Other" segment.

Inter-segment transfers

We account for all transactions between 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

Year ended 30 June 2007	TC&C $m	TB $m	TE&G $m	TW $m	Sensis $m	TInt. $m	TO $m	Other (a) $m	Elimina-tions $m	Total $m
Revenue from external customers	9,509	3,241	4,465	2,657	1,968	1,574	192	103	-	23,709
Add inter-segment revenue	-	-	64	300	-	32	51	5	(452)	-
Total segment revenue	9,509	3,241	4,529	2,957	1,968	1,606	243	108	(452)	23,709
Segment result	5,593	2,592	2,572	2,867	749	52	(3,915)	(4,830)	45	5,725
Share of equity accounted net (losses)/profits	-	-	(6)	-	(1)	-	-	-	-	(7)
Less net gain on sale of investments	-	-	43	-	4	9	2	3	-	61
Earnings before interest and income tax expense (EBIT)	5,593	2,592	2,609	2,867	752	61	(3,913)	(4,827)	45	5,779
Segment result has been calculated after charging/(crediting) the following non cash expenses:										
Impairment losses	182	8	7	6	143	21	14	14	-	395
Reversal of impairment losses	-	(1)	-	(1)	-	-	(4)	-	-	(6)
Depreciation and amortisation	-	-	51	-	130	325	61	3,515	-	4,082
Other significant non cash expenses	24	10	21	4	1	-	142	64	-	266
Non current segment assets acquired - accrual basis (excluding acquisition of investments)	13	5	59	9	226	195	5,361	11	-	5,879
As at 30 June 2007										
Segment assets	1,599	394	1,649	365	2,188	3,645	4,090	24,124	(179)	37,875
Segment assets include:										
Trade and other receivables	1,315	390	915	362	725	340	104	101	(171)	4,081
Investments accounted for using the equity method	-	-	12	-	3	1	-	-	-	16
Segment liabilities	1,227	182	631	274	691	558	2,899	19,005	(172)	25,295

(a) Revenue for the "Other" segment relates primarily to our revenue earned by Telstra Media from reselling FOXTEL pay television services to our customers 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 2006	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	8,879	3,163	4,474	2,610	1,825	1,450	226	107	-	22,734
Add inter-segment revenue	-	-	57	292	10	31	81	9	(480)	-
Total segment revenue	8,879	3,163	4,531	2,902	1,835	1,481	307	116	(480)	22,734
Segment result	5,634	2,541	2,632	2,694	864	86	(4,173)	(4,877)	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)	5,634	2,541	2,636	2,694	863	156	(4,173)	(4,883)	29	5,497
Segment result has been calculated after charging/(crediting) the following non cash expenses:										
Impairment losses	134	14	6	-	13	11	140	33	-	351
Reversal of impairment losses	-	-	-	(17)	-	-	(5)	-	-	(22)
Depreciation and amortisation	-	-	58	-	91	298	48	3,583	-	4,078
Other significant non cash expenses	25	4	20	5	1	3	144	8	-	210
Non current segment assets acquired - accrual basis (excluding acquisition of investments)	11	-	54	23	96	224	4,058	5	-	4,471
As at 30 June 2006										
Segment assets	1,420	372	1,812	450	1,886	3,817	3,315	23,331	(179)	36,224
Segment assets include:										
Trade and other receivables	1,226	372	839	444	693	323	89	57	(176)	3,867
Investments accounted for using the equity method	-	-	19	-	3	1	-	-	-	23
Segment liabilities	1,263	166	608	241	673	615	2,587	17,414	(177)	23,390

(a) Revenue for the "Other" segment relates primarily to our revenue earned by Telstra Media from reselling FOXTEL pay television services 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)

	Telstra Group Year ended 30 June 2007 $m	Telstra Group Year ended 30 June 2006 $m
Information about our geographic operations (i)		
Segment revenue from external customers		
Australian customers	**21,729**	20,976
International customers	**1,980**	1,758
	23,709	22,734
Carrying amount of segment assets		
Australian customers	**33,503**	32,043
International customers	**4,372**	4,181
	37,875	36,224
Non current segment assets acquired - accrual basis (excluding acquisition of investments)		
Located in Australia	**5,684**	4,247
Located in international countries	**195**	224
	5,879	4,471

(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), the SouFun business which is part of our Sensis segment, 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

	Note	Telstra Group Year ended 30 June 2007 $m	Telstra Group Year ended 30 June 2006 $m	Telstra Entity Year ended 30 June 2007 $m	Telstra Entity Year ended 30 June 2006 $m
Sales revenue					
Rendering of services		**12,541**	12,402	**10,225**	10,402
Sale of goods		**1,134**	808	**820**	536
Rent of network facilities		**8,069**	7,641	**8,075**	7,643
Construction contracts		**94**	150	**129**	173
Advertising and directory services		**1,835**	1,711	**549**	464
Procurement (a)		**-**	-	**642**	647
		23,673	22,712	**20,440**	19,865
Other revenue (excluding finance income)					
Dividend revenue from controlled entities	33	**-**	-	**186**	560
Rent from property		**36**	22	**36**	22
		36	22	**222**	582
Total revenue (excluding finance income)		**23,709**	22,734	**20,662**	20,447
Other income					
Net gain on disposal of:					
- property, plant and equipment		**6**	23	**10**	20
- intangibles		**2**	-	**2**	-
- investments in controlled entities		**48**	4	**-**	-
- investments in jointly controlled and associated entities		**9**	58	**9**	59
- investments in listed securities and other investments		**4**	-	**4**	-
		69	85	**25**	79
Other miscellaneous income (b)		**182**	243	**176**	84
		251	328	**201**	163
Total income (excluding finance income)		**23,960**	23,062	**20,863**	20,610
Finance income					
- interest on cash and cash equivalents		**46**	66	**35**	60
- interest on finance lease receivable		**11**	8	**11**	8
- other		**-**	-	**1**	3
		57	74	**47**	71
Total income		**24,017**	23,136	**20,910**	20,681

(a) The Telstra Entity receives procurement revenue from its controlled entity Sensis Pty Ltd for the use of Yellow® 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 were 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 was 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 recognised these incentive payments as other income.

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

Notes to the Financial Statements (continued)

7. Profit from continuing operations

	Note	Telstra Group Year ended 30 June 2007 $m	Telstra Group Year ended 30 June 2006 $m	Telstra Entity Year ended 30 June 2007 $m	Telstra Entity Year ended 30 June 2006 $m
(a) Profit before income tax expense has been calculated after charging/(crediting) the following items:					
Labour					
Included in our labour expenses are the following:					
Employee redundancy (b)		**149**	534	**129**	516
Share based payments	21	**25**	15	**25**	15
Defined benefit plan expense	28	**239**	185	**238**	182
Goods and services purchased					
Included in our goods and services purchased are the following:					
Cost of goods sold		**2,036**	1,421	**1,641**	1,087
Rental expense on managed services		**22**	47	**18**	42
Other expenses					
Impairment losses:					
- impairment in value of inventories (b)		**46**	53	**46**	53
- impairment in value of trade and other receivables (b)		**195**	161	**162**	138
- impairment in amounts owed by controlled entities (b)	33	**-**	-	**173**	382
- impairment in amounts owed by jointly controlled entities	33	**1**	2	**-**	-
- impairment in value of investments (b) (i)		**-**	-	**55**	245
- impairment in value of property, plant and equipment (b)	14	**31**	69	**12**	69
- impairment in value of intangibles (b)	15	**122**	66	**9**	64
		395	351	**457**	951
Reversal of impairment losses:					
- reversal of impairment in value of inventories		**(4)**	-	**(4)**	-
- reversal of impairment in value of trade and other receivables		**(2)**	(22)	**(2)**	(22)
- reversal of impairment in value of investments		**-**	-	**-**	(15)
- reversal of impairment in amounts owed by controlled entities	33	**-**	-	**(2)**	-
		(6)	(22)	**(8)**	(37)
Rental expense on operating leases		**592**	598	**482**	432
Net foreign currency translation (gains)/losses		**(7)**	2	**(52)**	(50)
Service contracts and other agreements		**2,177**	1,836	**2,120**	1,796
Promotion and advertising		**422**	356	**328**	285
General and administration		**949**	792	**773**	606
Other operating expenses		**402**	514	**417**	579
		4,924	4,427	**4,517**	4,562

(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.

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
(a) Profit before income tax expense has been calculated after charging/(crediting) the following items: (continued)					
Depreciation of property, plant and equipment (b)					
- general purpose buildings including leasehold improvements	14	**58**	62	**51**	54
- communication assets including leasehold improvements	14	**3,110**	2,949	**2,891**	2,783
- communication assets under finance lease	14	**67**	67	**67**	67
- other plant, equipment and motor vehicles	14	**108**	93	**56**	45
- equipment under finance lease	14	**1**	3	**-**	-
		3,344	3,174	**3,065**	2,949
Amortisation of intangible assets					
- software assets developed for internal use (b)	15	**577**	726	**466**	629
- patents and trademarks	15	**2**	2	**3**	4
- licences	15	**59**	58	**18**	18
- brandnames	15	**13**	11	**-**	-
- customer bases	15	**81**	98	**5**	13
- deferred expenditure		**6**	9	**31**	35
		738	904	**523**	699
		4,082	4,078	**3,588**	3,648
Finance costs					
- interest on bills of exchange and commercial paper		**128**	65	**128**	65
- interest on Telstra bonds and domestic loans		**195**	242	**195**	242
- interest on offshore loans		**466**	486	**466**	486
- interest on short term borrowings		**2**	1	**2**	1
- interest on derivative instruments		**262**	169	**262**	169
- interest on net payables to controlled entities	33	**-**	-	**26**	20
- interest on finance leases		**11**	11	**7**	7
		1,064	974	**1,086**	990
- unwinding of discount on liabilities recognised at present value		**43**	40	**26**	9
- loss/(gain) on fair value hedges		**9**	(26)	**9**	(26)
- loss on cash flow hedges		**4**	-	**4**	-
- other		**24**	19	**22**	17
		1,144	1,007	**1,147**	990
Research and development					
Research and development expenses		**9**	23	**9**	23

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 as detailed below:

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	**2007**	2006
	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 intangibles (ii)	15	**110**	-	**-**	-
- impairment in value of controlled entities (iii)		**-**	-	**49**	205
- impairment in amounts owed by controlled entities (iv)		**-**	-	**173**	382
		110	-	**222**	587
Total expense items		**110**	1,126	**222**	1,694
Income tax benefit attributable to those items requiring specific disclosure		**-**	(338)	**-**	(332)
Net items after income tax benefit		**110**	788	**222**	1,362

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

(b) Income statement items requiring specific disclosure (continued)

(i) For the year ended 30 June 2006, we recorded a number of restructuring related expenses associated with the implementation of the strategic review initiatives. 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 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. These impairment losses were included within the Telstra Operations and Other segments; 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.

In fiscal 2006 a total provision of $427 million was raised for redundancy and restructuring for the Telstra Group. This included $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 trade receivables. For details regarding the utilisation and other changes to this provision during fiscal 2007 refer to note 19.

(ii) The profit before income tax expense of the Telstra Group included an impairment loss of $110 million relating to impairment of the mastheads in Trading Post. Refer to note 25 for further details regarding impairment. This impairment loss is included in our Sensis segment.

(iii) In fiscal 2007, the profit before income tax expense of the Telstra Entity included an expense of $49 million in relation to an impairment of the value of two controlled entities. 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. 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 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.

(iv) The profit before income tax expense of the Telstra Entity included an impairment loss of $173 million (2006: $382 million) relating to the movement in allowance for amounts owed by four controlled entities. This balance was eliminated on consolidation for Telstra Group purposes.

Notes to the Financial Statements (continued)

8. Remuneration of auditors

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Audit fees				
Ernst & Young has charged the following amounts for auditing and reviewing the financial reports (i) (ii)	**8.650**	2.900	**6.663**	1.601
The Australian National Audit Office has charged the following amounts for auditing and reviewing the financial reports (i)	**-**	4.981	**-**	4.431
Other audit firms have charged the following amounts for auditing and reviewing the financial reports of controlled entities	**0.288**	-	**-**	-
Total audit fees	**8.938**	7.881	**6.663**	6.032
Other services				
In addition to auditing and reviewing the financial reports, other services were provided by Ernst & Young in their own right as follows:				
Audit related (iii)	**1.970**	0.829	**1.970**	0.538
Tax (iv)	**0.077**	0.118	**0.077**	0.111
Other services (v)	**0.626**	0.331	**0.009**	0.261
Total other services provided	**2.673**	1.278	**2.056**	0.910

Audit fees

(i) Ernst & Young (EY) is appointed as our external auditor for fiscal 2007.

The Australian National Audit Office (ANAO) was our Australian statutory auditor in fiscal 2006, however the audit provided by the ANAO had been subcontracted to EY since fiscal 2000. In accordance with section 36(1) of the Telstra Corporation Act 1991, the Auditor-General for Australia resigned as our external auditor effective 12 December 2006.

(ii) Audit fees charged by EY during fiscal 2006 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 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. EY also has specific internal processes in place to ensure auditor independence.

Fees earned by EY for non-audit services 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.

(iii) Audit related fees charged by EY are for 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 and additional audit services arising on the acquisition of newly acquired controlled entities. Fiscal 2007 includes $1.253 million for services related to the Telstra 3 Share Offer.

(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 the 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	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Major components of income tax expense				
Current tax expense	**1,643**	1,731	**1,764**	1,861
Deferred tax resulting from the origination and reversal of temporary differences	**(228)**	(386)	**(243)**	(411)
Under provision of tax in prior years	**2**	36	**(9)**	33
	1,417	1,381	**1,512**	1,483
Notional income tax expense on profit differs from actual income tax expense recorded as follows:				
Profit before income tax expense	**4,692**	4,564	**4,950**	4,722
Notional income tax expense on profit calculated at 30% (a):	**1,408**	1,369	**1,485**	1,417
Which is adjusted by the tax effect of:				
Effect of different rates of tax on overseas income	**(30)**	(19)	**-**	-
Non assessable and non deductible items	**37**	(5)	**36**	33
Under provision of tax in prior years	**2**	36	**(9)**	33
Income tax expense on profit	**1,417**	1,381	**1,512**	1,483
Amounts recognised directly in equity during the year				
Deferred tax debited directly in equity during the year	**15**	291	**13**	289

(a) The Commonwealth statutory income tax rate for fiscal 2007 and fiscal 2006 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	
	2007	2006	2007	2006
	$m	$m	$m	$m
Deferred tax asset/(deferred tax liability)				
Deferred tax items recognised in income statement				
Property, plant and equipment	**(1,406)**	(1,873)	**(1,434)**	(1,912)
Intangible assets	**(586)**	(356)	**(461)**	(175)
Provision for employee entitlements	**264**	268	**241**	246
Revenue received in advance	**109**	116	**-**	-
Provision for workers' compensation	**59**	65	**57**	62
Allowance for doubtful debts	**44**	42	**38**	33
Defined benefit assets (d)	**26**	(45)	**28**	(43)
Trade and other payables	**58**	57	**55**	54
Provision for redundancy	**12**	56	**12**	55
Other provisions	**104**	91	**102**	85
Income tax losses (a)	**90**	106	**-**	-
Other	**(4)**	36	**(1)**	27
	(1,230)	(1,437)	**(1,363)**	(1,568)
Deferred tax items recognised in equity (b)				
Defined benefit assets (d)	**(266)**	(260)	**(264)**	(258)
Derivative financial instruments	**(16)**	(7)	**(16)**	(7)
	(282)	(267)	**(280)**	(265)
Net deferred tax liability	**(1,512)**	(1,704)	**(1,643)**	(1,833)
Our net deferred tax liability is split as follows (c):				
Deferred tax assets recognised in the balance sheet	**1**	1	**-**	-
Deferred tax liabilities recognised in the balance sheet	**(1,513)**	(1,705)	**(1,643)**	(1,833)
	(1,512)	(1,704)	**(1,643)**	(1,833)

(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 in 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 consolidated 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 unless they are within the same tax jurisdiction and they are intended to be settled on a net basis.

(d) Our net deferred tax liabilities on our defined benefit asset for Telstra Group is $240 million (2006: $305 million) and for Telstra Entity $236 million (2006: $301 million).

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Deferred tax assets not recognised in the balance sheet (a):				
Income tax losses	**48**	185	**-**	-
Capital tax losses	**161**	196	**127**	160
Deductible temporary differences	**427**	353	**218**	192
	636	734	**345**	352

(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 2007, 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 $8 million (2006: $9 million) that will expire in fiscal 2021.

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 $92 million (2006: $40 million) to the Telstra Entity and amounts payable from the Telstra Entity of $219 million (2006: $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.

Notes to the Financial Statements (continued)

10. Cash and cash equivalents

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Current				
Cash at bank and on hand	**241**	238	**94**	87
Bank deposits, bills of exchange and commercial paper (a)	**582**	451	**452**	387
	823	689	**546**	474

(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	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Current					
Trade receivables (a)		**2,917**	2,714	**2,233**	2,030
Allowance for doubtful debts (a)		**(161)**	(153)	**(126)**	(119)
		2,756	2,561	**2,107**	1,911
Amounts owed by controlled entities (other than trade receivables)	33	**-**	-	**2,344**	2,267
Allowance for amounts owed by controlled entities (other than trade receivables)	33	**-**	-	**(2,022)**	(1,851)
		-	-	**322**	416
Finance lease receivable (b)		**46**	20	**46**	20
Accrued revenue		**966**	1,027	**912**	971
Bank deposits with maturity greater than 90 days		**31**	-	**-**	-
Other receivables		**92**	113	**42**	46
		1,135	1,160	**1,000**	1,037
		3,891	3,721	**3,429**	3,364
Non current					
Trade receivables (a)		**53**	71	**53**	71
Allowance for doubtful debts (a)		**-**	(5)	**-**	(5)
		53	66	**53**	66
Amounts owed by jointly controlled and associated entities (c)	33	**221**	229	**183**	210
Allowance for amounts owed by jointly controlled and associated entities (c)	33	**(183)**	(215)	**(183)**	(210)
		38	14	**-**	-
Amounts owed by controlled entities (other than trade receivables)	33	**-**	-	**129**	60
Finance lease receivable (b)		**90**	59	**90**	59
Other receivables		**9**	7	**1**	1
		99	66	**91**	60
		190	146	**273**	186

Notes to the Financial Statements (continued)

11. Trade and other receivables (continued)

(a) Trade receivables and allowance for doubtful debts

The ageing of trade receivables at 30 June 2007 is detailed below:

	Telstra Group				Telstra Entity			
	As at 30 June				As at 30 June			
	2007		2006		2007		2006	
	Gross $m	Allowance $m	Gross $m	Allowance $m	Gross $m	Allowance $m	Gross $m	Allowance $m
Not past due (i)	**1,765**	**-**	1,664	(14)	**1,404**	**-**	1,255	(14)
Past due 0 - 30 days	**677**	**(3)**	678	(2)	**504**	**(3)**	537	(2)
Past due 31 - 60 days	**186**	**(11)**	166	(13)	**130**	**(6)**	123	(8)
Past due 61 - 90 days	**82**	**(13)**	70	(10)	**59**	**(9)**	44	(6)
Past due 91 - 120 days	**72**	**(21)**	63	(16)	**50**	**(12)**	46	(8)
Past 120 days	**188**	**(113)**	144	(103)	**139**	**(96)**	96	(86)
	2,970	**(161)**	2,785	(158)	**2,286**	**(126)**	2,101	(124)

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2007 $m	2006 $m	2007 $m	2006 $m
Opening balance	**(158)**	(159)	**(124)**	(125)
- additional provisions	**(27)**	(23)	**(18)**	(21)
- addition due to acquisition	**(1)**	(2)	**-**	-
- reduction due to disposal	**1**	-	**-**	-
- amounts used	**16**	7	**10**	4
- amounts reversed	**7**	19	**6**	18
- foreign currency exchange differences	**1**	-	**-**	-
Closing balance	**(161)**	(158)	**(126)**	(124)

Our policy requires customers 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 receivables has been provided for in the balance sheet.

Our trade receivables include our customer deferred debt and White Pages® directory charges. Our customer deferred debt allows eligible post paid mobile 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. Similarly, the White Pages® directory entries can be repaid over 12 months.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

We hold security for a number of trade receivables in the form of guarantees, deeds of undertaking, letters of credit and deposits. During fiscal 2007 and 2006, the securities we called upon were insignificant.

We have used the following basis to assess the allowance loss for trade receivables:

- a statistical approach to determine the historical allowance rate for each debt tranche, and applying this allowance rate to the debt tranches at the end of the reporting period;
- an individual account by account assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

Notes to the Financial Statements (continued)

11. Trade and other receivables (continued)

(a) Trade receivables and allowance for doubtful debts (continued)

As at 30 June 2007, trade receivables with a carrying amount of $1,044 million (2006: $977 million) for the Telstra Group and $756 million (2006: $736 million) for the Telstra Entity were past due but not doubtful. These trade receivables comprise customers who have a good debt history and are considered recoverable.

(i) This allowance in fiscal 2006 relates to the total redundancy and restructuring provision raised in 2006. Refer to note 7(b) for further details.

(b) Finance lease receivable

We entered into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 - 5 years (2006: 2 - 5 years).

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Amounts receivable under finance leases				
Within 1 year	**55**	40	**55**	40
Within 1 to 5 years	**99**	51	**99**	51
Total minimum lease payments	**154**	91	**154**	91
Less unearned finance income	**(18)**	(12)	**(18)**	(12)
Present value of minimum lease payments	**136**	79	**136**	79
Included in the financial statements as:				
Current finance lease receivables	**46**	20	**46**	20
Non current finance lease receivables	**90**	59	**90**	59
	136	79	**136**	79

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 8.1% (2006: 8.1%) per annum.

(c) Amounts owed by jointly controlled and associated entities

In fiscal 2007, amounts owed by jointly controlled and associated entities relates mainly to loans provided to Reach Ltd (Reach) of $183 million (2006: $210 million) and the 3GIS Partnership (3GIS) of $38 million (2006: $14 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	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Current				
Finished goods recorded at cost	**155**	123	**125**	91
Finished goods recorded at net realisable value	**133**	79	**116**	67
Total finished goods	**288**	202	**241**	158
Raw materials and stores recorded at cost	**31**	15	**20**	10
Construction contracts (a)	**13**	7	**13**	7
	332	224	**274**	175
Non current				
Finished goods recorded at cost	**6**	5	**4**	5
Finished goods recorded at net realisable value	**11**	15	**13**	15
	17	20	**17**	20
(a) Construction contract disclosures are shown as follows:				
Contract costs incurred and recognised profits	**96**	108	**96**	108
Progress billings	**(83)**	(101)	**(83)**	(101)
	13	7	**13**	7
Advances received for construction work in progress (included in trade and other payables)	**-**	7	**-**	7

Notes to the Financial Statements (continued)

13. Investments

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Investments - accounted for using the equity method					
Investments in jointly controlled entities		**3**	4	**2**	2
Allowance for impairment in value		**(2)**	(2)	**(2)**	(2)
Carrying amount of investments in jointly controlled entities	30	**1**	2	**-**	-
Investments in associated entities		**39**	45	**18**	18
Allowance for impairment in value		**(24)**	(24)	**(6)**	-
Carrying amount of investments in associated entities	30	**15**	21	**12**	18
		16	23	**12**	18
Investments - other					
Investments in controlled entities	29	**-**	-	**13,045**	13,062
Allowance for impairment in value		**-**	-	**(7,158)**	(7,109)
Total investments in controlled entities		**-**	-	**5,887**	5,953
Investments in other corporations		**6**	3	**6**	3
Allowance for impairment in value		**(3)**	(3)	**(3)**	(3)
Total investments in other corporations		**3**	-	**3**	-
		3	-	**5,890**	5,953

Notes to the Financial Statements (continued)

14. Property, plant and equipment

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Land and site improvements				
At cost	**32**	35	**29**	32
Buildings (including leasehold improvements)				
At cost	**911**	822	**803**	706
Accumulated depreciation/impairment	**(444)**	(392)	**(397)**	(352)
	467	430	**406**	354
Communication assets (including leasehold improvements)				
At cost	**49,029**	45,826	**46,296**	43,197
Accumulated depreciation/impairment	**(25,891)**	(23,387)	**(24,774)**	(22,381)
	23,138	22,439	**21,522**	20,816
Communication assets under finance lease				
At cost	**858**	858	**858**	858
Accumulated depreciation/impairment	**(568)**	(501)	**(568)**	(501)
	290	357	**290**	357
Other plant, equipment and motor vehicles				
At cost	**1,395**	1,068	**928**	692
Accumulated depreciation/impairment	**(717)**	(740)	**(454)**	(519)
	678	328	**474**	173
Equipment under finance lease				
At cost	**27**	32	**2**	6
Accumulated depreciation/impairment	**(25)**	(29)	**-**	(3)
	2	3	**2**	3
Total property, plant and equipment				
At cost	**52,252**	48,641	**48,916**	45,491
Accumulated depreciation.	**(27,645)**	(25,049)	**(26,193)**	(23,756)
	24,607	23,592	**22,723**	21,735

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	2007	2006
	Note	$m	$m	$m	$m
Land and site improvements					
Opening cost		35	40	32	37
- disposals		(3)	(5)	(3)	(5)
Closing cost		32	35	29	32
Buildings (including leasehold improvements)					
Opening cost		822	822	706	722
- additions		112	72	107	60
- disposals		(15)	(104)	(10)	(98)
- acquisitions through business combinations		-	10	-	-
- foreign currency exchange differences		1	(4)	-	-
- other		(9)	26	-	22
Closing cost		911	822	803	706
Opening accumulated depreciation/impairment		(392)	(392)	(352)	(356)
- disposals		9	74	6	70
- acquisitions through business combinations		-	(1)	-	-
- depreciation expense	7	(58)	(62)	(51)	(54)
- impairment losses		(1)	(6)	-	(6)
- foreign currency exchange differences		(2)	3	-	-
- other		-	(8)	-	(6)
Closing accumulated depreciation/impairment		(444)	(392)	(397)	(352)
Closing net book value		467	430	406	354

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Communication assets (including leasehold improvements) (a)					
Opening cost		**45,826**	43,198	**43,197**	41,108
- additions		**3,837**	3,678	**3,609**	3,495
- disposals		**(599)**	(1,416)	**(507)**	(1,432)
- acquisitions through business combinations		**-**	421	**-**	-
- foreign currency exchange differences		**(33)**	(105)	**-**	-
- other		**(2)**	50	**(3)**	26
Closing cost		**49,029**	45,826	**46,296**	43,197
Opening accumulated depreciation/impairment		**(23,387)**	(21,533)	**(22,381)**	(20,938)
- disposals		**592**	1,376	**504**	1,393
- acquisitions through business combinations		**-**	(265)	**-**	-
- depreciation expense	7	**(3,110)**	(2,949)	**(2,891)**	(2,783)
- impairment losses		**(23)**	(37)	**(6)**	(37)
- foreign currency exchange differences		**29**	41	**-**	-
- other		**8**	(20)	**-**	(16)
Closing accumulated depreciation/impairment		**(25,891)**	(23,387)	**(24,774)**	(22,381)
Closing net book value		**23,138**	22,439	**21,522**	20,816
Communication assets under finance lease					
Opening and closing cost		**858**	858	**858**	858
Opening accumulated depreciation/impairment		**(501)**	(434)	**(501)**	(434)
- depreciation expense	7	**(67)**	(67)	**(67)**	(67)
Closing accumulated depreciation/impairment		**(568)**	(501)	**(568)**	(501)
Closing net book value		**290**	357	**290**	357

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

Notes to the Financial Statements (continued)

14. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	2007	2006
	Note	$m	$m	$m	$m
Other plant, equipment and motor vehicles					
Opening cost		1,068	1,011	692	753
- additions		481	124	377	34
- disposals		(160)	(111)	(141)	(96)
- acquisitions through business combinations		3	48	-	-
- foreign currency exchange differences		-	(8)	-	-
- other		3	4	-	1
Closing cost		1,395	1,068	928	692
Opening accumulated depreciation/impairment		(740)	(710)	(519)	(554)
- disposals		143	98	126	85
- acquisitions through business combinations		(1)	(37)	-	-
- depreciation expense	7	(108)	(93)	(56)	(45)
- impairment losses		(7)	(26)	(6)	(26)
- foreign currency exchange differences		3	6	-	-
- other		(7)	22	1	21
Closing accumulated depreciation/impairment		(717)	(740)	(454)	(519)
Closing net book value		678	328	474	173
Equipment under finance lease					
Opening cost		32	32	6	6
- additions		2	1	1	2
- disposals		(7)	-	(5)	(2)
- foreign currency exchange differences		1	(1)	-	-
- other		(1)	-	-	-
Closing cost		27	32	2	6
Opening accumulated depreciation/impairment		(29)	(28)	(3)	(6)
- disposals		5	-	3	-
- depreciation expense	7	(1)	(3)	-	-
- other		-	2	-	3
Closing accumulated depreciation/impairment		(25)	(29)	-	(3)
Closing net book value		2	3	2	3

Work in progress

As at 30 June 2007, the Telstra Group has property, plant and equipment under construction amounting to $1,657 million (2006: $1,695 million) and the Telstra Entity has property, plant and equipment under construction amounting to $1,541 million (2006: $1,596 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.

Other

As at 30 June 2007, the Telstra Group has property, plant and equipment that was fully depreciated and still in use with a cost of $2,608 million (2006: $1,767 million) and the Telstra Entity has property, plant and equipment that was fully depreciated and still in use with a cost of $1,803 million (2006: $1,412 million).

Notes to the Financial Statements (continued)

15. Intangible assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	2007	2006
	$m	$m	$m	$m
Goodwill	**2,126**	2,073	**16**	16
Internally generated intangible assets				
Software assets developed for internal use (a)	**4,214**	3,188	**3,516**	2,651
Accumulated amortisation	**(1,664)**	(1,406)	**(1,311)**	(1,171)
	2,550	1,782	**2,205**	1,480
Acquired intangible assets				
Mastheads (b)	**337**	447	**-**	-
Patents and trademarks	**34**	34	**7**	20
Accumulated amortisation	**(10)**	(8)	**(7)**	(11)
	24	26	**-**	9
Licences	**778**	833	**266**	267
Accumulated amortisation	**(240)**	(241)	**(150)**	(132)
	538	592	**116**	135
Customer bases	**774**	846	**70**	70
Accumulated amortisation	**(438)**	(407)	**(70)**	(64)
	336	439	**-**	6
Brandnames	**239**	235	**-**	-
Accumulated amortisation	**(61)**	(53)	**-**	-
	178	182	**-**	-
Total acquired intangible assets	**1,413**	1,686	**116**	150
Deferred expenditure				
Deferred expenditure	**1,901**	1,589	**2,151**	1,841
Accumulated amortisation	**(1,365)**	(1,007)	**(1,404)**	(1,022)
	536	582	**747**	819
Total intangible assets				
At cost	**10,403**	9,245	**6,026**	4,865
Accumulated amortisation	**(3,778)**	(3,122)	**(2,942)**	(2,400)
	6,625	6,123	**3,084**	2,465

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Goodwill					
Opening cost		**2,073**	2,037	**16**	16
- acquisitions through business combinations	24	**345**	324	**-**	-
- disposals		**(107)**	(312)	**-**	-
- impairment losses	7	**(7)**	(1)	**-**	-
- foreign currency exchange differences		**(176)**	27	**-**	-
- other		**(2)**	(2)	**-**	-
Closing cost		**2,126**	2,073	**16**	16
Internally generated intangible assets					
Software assets developed for internal use (a)					
Opening cost		**3,188**	3,622	**2,651**	3,173
- additions		**1,393**	602	**1,221**	498
- disposals		**(382)**	(969)	**(336)**	(965)
- acquisitions through business combinations		**3**	1	**-**	-
- impairment losses	7	**(4)**	(65)	**(4)**	(64)
- foreign currency exchange differences		**1**	(10)	**-**	-
- other		**15**	7	**(16)**	9
Closing cost		**4,214**	3,188	**3,516**	2,651
Opening accumulated amortisation		**(1,406)**	(1,652)	**(1,171)**	(1,499)
- disposals		**336**	969	**326**	965
- amortisation expense (d)	7	**(577)**	(726)	**(466)**	(629)
- foreign currency exchange differences		**(2)**	7	**-**	-
- other		**(15)**	(4)	**-**	(8)
Closing accumulated amortisation		**(1,664)**	(1,406)	**(1,311)**	(1,171)
Closing net book value		**2,550**	1,782	**2,205**	1,480
Mastheads (b)					
Opening cost		**447**	447	**-**	-
- impairment losses	7	**(110)**	-	**-**	-
Closing cost		**337**	447	**-**	-

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	2007	2006
	Note	$m	$m	$m	$m
Acquired intangible assets					
Patents and trademarks					
Opening cost		34	34	20	20
- additions		1	1	-	-
- disposals		(1)	-	(12)	-
- foreign currency exchange differences		1	-	-	-
- other		(1)	(1)	(1)	-
Closing cost		34	34	7	20
Opening accumulated amortisation		(8)	(6)	(11)	(7)
- disposals		1	-	12	-
- amortisation expense (d)	7	(2)	(2)	(3)	(4)
- impairment losses	7	(1)	-	(5)	-
Closing accumulated amortisation		(10)	(8)	(7)	(11)
Closing net book value		24	26	-	9
Licences					
Opening cost		833	793	267	267
- additions		20	16	-	2
- disposals		(51)	-	-	-
- acquisitions through business combinations		-	23	-	-
- foreign currency exchange differences		(25)	-	-	-
- other		1	1	(1)	(2)
Closing cost		778	833	266	267
Opening accumulated amortisation		(241)	(183)	(132)	(116)
- disposals		51	-	-	-
- amortisation expense (d)	7	(59)	(58)	(18)	(18)
- foreign currency exchange differences		9	1	-	-
- other		-	(1)	-	2
Closing accumulated amortisation		(240)	(241)	(150)	(132)
Closing net book value		538	592	116	135

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	2007	2006
	Note	$m	$m	$m	$m
Customer bases					
Opening cost		846	749	70	70
- additions		4	30	-	-
- disposals		(43)	-	-	-
- acquisitions through business combinations		8	76	-	-
- foreign currency exchange differences		(40)	(9)	-	-
- other		(1)	-	-	-
Closing cost		774	846	70	70
Opening accumulated amortisation		(407)	(305)	(64)	(51)
- disposals		7	-	-	-
- amortisation expense (d)	7	(81)	(98)	(5)	(13)
- foreign currency exchange differences		42	(4)	-	-
- other		1	-	(1)	-
Closing accumulated amortisation		(438)	(407)	(70)	(64)
Closing net book value		336	439	-	6
Brandnames					
Opening cost		235	215	-	-
- disposals		(3)	-	-	-
- acquisitions through business combinations		28	21	-	-
- foreign currency exchange differences		(21)	(1)	-	-
Closing cost		239	235	-	-
Opening accumulated amortisation		(53)	(42)	-	-
- amortisation expense (d)	7	(13)	(11)	-	-
- foreign currency exchange differences		5	-	-	-
Closing accumulated amortisation		(61)	(53)	-	-
Closing net book value		178	182	-	-

Notes to the Financial Statements (continued)

15. Intangible assets (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Deferred expenditure (c)				
Opening cost	**1,589**	1,272	**1,841**	1,533
- additions	**356**	317	**354**	315
- amounts written off	**(30)**	-	**(30)**	-
- other	**(14)**	-	**(14)**	(7)
Closing cost	**1,901**	1,589	**2,151**	1,841
Opening accumulated amortisation	**(1,007)**	(652)	**(1,022)**	(655)
- amortisation expense (d)	**(367)**	(355)	**(391)**	(367)
- amounts written off	**9**	-	**9**	-
Closing accumulated amortisation	**(1,365)**	(1,007)	**(1,404)**	(1,022)
Closing net book value	**536**	582	**747**	819

(a) As at 30 June 2007, the Telstra Group had software assets under development amounting to $1,255 million (2006: $352 million) and the Telstra Entity had software assets under development amounting to $1,106 million (2006: $296 million). As these assets were not installed and ready for use there is no amortisation being charged on the amounts.

(b) 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. During fiscal 2007 we recorded an impairment loss of $110 million against the mastheads. Despite this impairment we continue to assess the mastheads as having an indefinite useful life. Refer to note 25 for further details regarding impairment.

(c) 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 is 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.

(d) 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.

Notes to the Financial Statements (continued)

16. Derivative financial assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Current				
Cross currency swap hedge receivable	**38**	20	**38**	20
Forward contract asset	**3**	1	**3**	1
	41	21	**41**	21
Non current				
Cross currency swap hedge receivable	**25**	222	**25**	222
Interest rate swap asset	**224**	169	**224**	169
	249	391	**249**	391

Refer to note 34 for details on the financial risk management of our derivative financial instruments.

Notes to the Financial Statements (continued)

17. Trade and other payables

	Note	Telstra Group As at 30 June 2007 $m	Telstra Group As at 30 June 2006 $m	Telstra Entity As at 30 June 2007 $m	Telstra Entity As at 30 June 2006 $m
Current					
Trade creditors (a)		**884**	686	**748**	534
Accrued expenses		**1,632**	1,370	**1,330**	1,112
Accrued capital expenditure		**1,142**	844	**1,100**	772
Accrued interest		**278**	258	**278**	258
Deferred consideration for capital expenditure		**10**	123	**-**	-
Other creditors (a)		**261**	289	**180**	192
Amounts owed to controlled entities (other than trade creditors)	33	**-**	-	**221**	197
		4,207	3,570	**3,857**	3,065
Non current					
Deferred consideration for capital expenditure		**134**	127	**-**	-
Other creditors		**61**	70	**58**	65
		195	197	**58**	65

(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.

Notes to the Financial Statements (continued)

18. Borrowings

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Current					
Short term debt					
Bank loans		**-**	111	**-**	110
Promissory notes (a)		**1,435**	1,457	**1,435**	1,457
Loans from wholly owned controlled entities	33	**-**	-	**874**	1,408
		1,435	1,568	**2,309**	2,975
Long term debt - current portion					
Offshore loans (c)		**1,273**	394	**1,273**	394
Finance leases	26	**35**	20	**34**	18
		1,308	414	**1,307**	412
		2,743	1,982	**3,616**	3,387
Non current					
Long term debt					
Telstra bonds and domestic loans (b)		**2,991**	2,613	**2,991**	2,613
Offshore loans (c)		**8,545**	8,748	**8,545**	8,748
Finance leases	26	**83**	81	**54**	48
		11,619	11,442	**11,590**	11,409
Total debt payable					
Short term debt					
Bank loans		**-**	111	**-**	110
Promissory notes (a)		**1,435**	1,457	**1,435**	1,457
Loans from wholly owned controlled entities	33	**-**	-	**874**	1,408
		1,435	1,568	**2,309**	2,975
Long term debt (including current portion)					
Telstra bonds and domestic loans (b)		**2,991**	2,613	**2,991**	2,613
Offshore loans (c)		**9,818**	9,142	**9,818**	9,142
Finance leases	26	**118**	101	**88**	66
		12,927	11,856	**12,897**	11,821
		14,362	13,424	**15,206**	14,796

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) Promissory notes

We have issued promissory notes of $1,435 million (2006: $1,457 million) to financial institutions with an original maturity of less than 180 days. At 30 June 2007, all $1,435 million (2006: $1,457 million) of the promissory notes mature in less than three months.

(b) Telstra bonds and domestic loans

Telstra bonds and domestic loans currently on issue relate to wholesale investors and mature up until the year 2020. During fiscal 2007, $nil (2006: $508 million) of Telstra bonds matured.

Notes to the Financial Statements (continued)

18. Borrowings (continued)

(c) Offshore loans

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

Telstra Group - Offshore loan details	A$ amount		Interest rates		Maturity dates	
	As at 30 June		Year ended 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006
	A$m	A$m	**%**	%		
Australian dollar loans	**492**	245	**5.93 to 6.82**	5.93	**between Nov 2007 to Feb 2012**	November 2007
US dollar loans	**906**	1,028	**5.22 to 6.47**	5.22 to 6.47	**between Apr 2008 and Dec 2015**	between Apr 2008 and Dec 2015
Euro eurobond loan	**7,019**	6,336	**3.14 to 6.49**	3.14 to 6.49	**between Apr 2008 and Mar 2017**	between Dec 2006 and Jul 2015
Swiss franc eurobond loan	**285**	326	**2.61**	2.61	**April 2013**	April 2013
Japanese yen loans	**387**	472	**0.32 to 2.51**	0.44 to 2.51	**between Jul 2007 and Jun 2016**	between Jul 2007 and Jun 2016
Singapore dollar loans	**77**	84	**3.80**	3.80	**March 2008**	March 2008
New Zealand dollar loans	**181**	164	**7.03 to 7.19**	7.03 to 7.19	**between Nov 2011 and Nov 2014**	between Nov 2011 and Nov 2014
British pound sterling loans	**471**	487	**6.23**	6.23	**August 2014**	August 2014
Total offshore loans including current portion	**9,818**	9,142				

(d) Financing arrangements

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$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	**876**	911	**861**	894
Amount of credit unused	**876**	911	**861**	894

We have commercial paper facilities in place with financial institutions under which we may issue up to $10,063 million (2006: $14,651 million). As at 30 June 2007, we had drawn down $1,435 million (2006: $1,457 million) of these 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	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Current				
Employee benefits (a)	**310**	319	**262**	272
Workers' compensation	**29**	32	**29**	31
Restructuring	**128**	81	**128**	81
Redundancy (a)	**39**	158	**39**	155
Other	**122**	147	**110**	140
	628	737	**568**	679
Non current				
Employee benefits (a)	**565**	573	**539**	548
Workers' compensation	**167**	184	**162**	177
Restructuring	**51**	128	**51**	128
Redundancy (a)	**-**	28	**-**	28
Other	**51**	61	**35**	43
	834	974	**787**	924
(a) Aggregate employee benefits				
Current provision for employee benefits	**310**	319	**262**	272
Non current provision for employee benefits	**565**	573	**539**	548
Current provision for redundancy	**39**	158	**39**	155
Non current provision for redundancy	**-**	28	**-**	28
Accrued labour and on-costs (i)	**379**	317	**337**	303
	1,293	1,395	**1,177**	1,306

(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	
	2007	2006	**2007**	2006
Weighted average projected increase in salaries, wages and associated on-costs	**4.6%**	4.2%	**4.6%**	4.3%
Weighted average discount rates	**5.8%**	5.4%	**5.8%**	5.4%
Leave taking rates	**12.4%**	13.2%	**12.5%**	13.3%

Notes to the Financial Statements (continued)

19. Provisions (continued)

(b) Movement in provisions, other than employee benefits

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Workers' compensation				
Opening balance	**216**	214	**208**	206
- additional provisions	**5**	24	**5**	23
- amount used	**(30)**	(32)	**(29)**	(31)
- unwinding of discount on liabilities recognised at present value	**10**	11	**10**	11
- effect of any change in the discount rate	**(5)**	(1)	**(3)**	(1)
Closing balance	**196**	216	**191**	208
Restructuring				
Opening balance	**209**	-	**209**	-
- additional provisions	**22**	209	**22**	209
- amount used	**(49)**	-	**(49)**	-
- unwinding of discount on liabilities recognised at present value	**20**	-	**20**	-
- reversal of amounts unused	**(23)**	-	**(23)**	-
Closing balance	**179**	209	**179**	209
Redundancy				
Opening balance	**186**	-	**183**	-
- additional provisions	**-**	186	**-**	183
- amount used	**(148)**	-	**(145)**	-
- unwinding of discount on liabilities recognised at present value	**1**	-	**1**	-
Closing balance	**39**	186	**39**	183
Other				
Opening balance	**208**	155	**183**	111
- additional provisions	**85**	113	**70**	113
- amount used	**(86)**	(51)	**(78)**	(38)
- reversal of amounts unused	**(30)**	(17)	**(30)**	(16)
- unwinding of discount on liabilities recognised at present value	**4**	9	**4**	9
- disposal of a controlled entity	**(4)**	-	**-**	-
- foreign currency exchange differences	**(5)**	(2)	**(5)**	-
- other	**1**	1	**1**	4
Closing balance	**173**	208	**145**	183

Notes to the Financial Statements (continued)

19. Provisions (continued)

(c) 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 9 years (2006: 11 years).

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

Restructuring and redundancy

The provision for restructuring and redundancy relates to our transformation project that was announced on 15 November 2005. A provision exists only for those restructuring and redundancy 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 restructuring and redundancy 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.

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, provision for surplus lease space, provision for lease incentives, provision for onerous leases and other general provisions.

Notes to the Financial Statements (continued)

20. Derivative financial liabilities

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Current				
Cross currency swap hedge payable	**165**	6	**165**	6
Forward contract liability	**9**	6	**9**	6
Interest rate swap payable	**3**	-	**3**	-
	177	12	**177**	12
Non current				
Cross currency swap hedge payable	**1,051**	612	**1,051**	612
Interest rate swap payable	**277**	156	**277**	156
	1,328	768	**1,328**	768

Refer to note 34 for details on the financial risk management of our derivative financial instruments.

Notes to the Financial Statements (continued)

21. Share capital

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Contributed equity	**5,793**	5,793	**5,793**	5,793
Share loan to employees	**(113)**	(130)	**(113)**	(130)
Shares held by employee share plan trusts	**(84)**	(99)	**(84)**	(99)
Net services received under employee share plans	**15**	5	**15**	5
	5,611	5,569	**5,611**	5,569

Contributed equity

Our contributed equity represents our authorised and issued 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.

We have 12,443,074,357 authorised fully paid ordinary shares on issue.

Included in our ordinary shares are the instalment receipts as part of the sale of shares in our company by the Commonwealth (Telstra 3 Share Offer). Holders of instalment receipts have the right to receive dividends as declared and entitled to vote, by directing the trustee, Telstra Sale Company Limited, at a meeting of the company. Telstra instalment receipts are traded on the Australian Stock Exchange with the final instalment payable to the Commonwealth by 29 May 2008.

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). Refer to note 31 for further details regarding these plans.

Shares held by employee share plan trusts

The shares held by employee share plan trusts account represents the cost 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 2007 the number of shares totalled 15,116,395 (2006: 17,931,918). These shares are excluded for the purposes of calculating basic and diluted earnings per share.

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

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Share capital					
Contributed equity					
Opening and closing balance		**5,793**	5,793	**5,793**	5,793
Share loan to employees					
Opening balance		**(130)**	(154)	**(130)**	(154)
- amounts repaid on share loans provided to employees		**17**	24	**17**	24
Closing balance		**(113)**	(130)	**(113)**	(130)
Shares held by employee share plan trusts					
Opening balance		**(99)**	(113)	**(99)**	(113)
- additional shares purchased		**-**	(6)	**-**	(6)
- shares issued to employees under employee share plans		**15**	20	**15**	20
Closing balance		**(84)**	(99)	**(84)**	(99)
Net services received under employee share plans					
Opening balance		**5**	10	**5**	10
- share based payment expense	7	**25**	15	**25**	15
- shares issued to employees under employee share plans		**(15)**	(20)	**(15)**	(20)
Closing balance		**15**	5	**15**	5
		5,611	5,569	**5,611**	5,569

Notes to the Financial Statements (continued)

22. Reserves

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Foreign currency translation reserve	**(325)**	(210)	**-**	-
Cash flow hedging reserve	**37**	14	**38**	16
Consolidation fair value reserve	**26**	32	**-**	-
General reserve	**4**	4	**194**	194
	(258)	(160)	**232**	210

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.

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. These gains or losses are transferred to the income statement when the hedged item affects income, or in the case of forecast transactions, are included in the measurement of the initial cost of property, plant and equipment or inventory.

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 2007 $m	Telstra Group As at 30 June 2006 $m	Telstra Entity As at 30 June 2007 $m	Telstra Entity As at 30 June 2006 $m
Reserves					
Foreign currency translation reserve					
Opening balance		**(210)**	(195)	**-**	-
- reserves recognised on equity accounting our interest in jointly controlled and associated entities	30	**(1)**	1	**-**	-
- adjustment on translation of financial statements of non-Australian controlled entities		**(113)**	(36)	**-**	-
- transfer of foreign currency translation reserve on sale of jointly controlled entity		**(1)**	1	**-**	-
- reduction on dilution of ownership of Telstra CSL Limited	24	**-**	19	**-**	-
Closing balance		**(325)**	(210)	**-**	-
Cash flow hedging reserve					
Opening balance		**14**	-	**16**	-
- adjustment to opening balance on adoption of new accounting standard (i)		**-**	79	**-**	82
Adjusted opening balance		**14**	79	**16**	82
- net hedging (losses)/gains recognised directly in equity		**(552)**	327	**(551)**	327
- net hedging losses/(gains) removed from equity and included in profit for the year		**573**	(420)	**572**	(421)
- net hedging losses removed from equity and included in property, plant and equipment		**11**	-	**10**	-
- income tax on cash flow hedging reserve		**(9)**	28	**(9)**	28
Closing balance		**37**	14	**38**	16
Consolidation fair value reserve					
Opening balance		**32**	38	**-**	-
- transfers to retained profits	23	**(6)**	(6)	**-**	-
Closing balance		**26**	32	**-**	-
General reserve					
Opening and closing balance		**4**	4	**194**	194
		(258)	(160)	**232**	210

(i) Adjustment on adoption of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" from 1 July 2005.

Notes to the Financial Statements (continued)

23. Retained profits

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Retained profits					
Opening balance		**7,179**	8,273	**6,338**	7,413
- adjustment to opening balance on adoption of new accounting standard (i)		**-**	(5)	**-**	(5)
Adjusted opening balance		**7,179**	8,268	**6,338**	7,408
- profit for the year attributable to equity holders of Telstra Entity		**3,253**	3,183	**3,438**	3,239
- actuarial gain on defined benefit plans		**23**	958	**17**	945
- income tax on the actuarial gain on defined benefit plans		**(6)**	(284)	**(4)**	(284)
- dividends paid	4	**(3,479)**	(4,970)	**(3,479)**	(4,970)
- transfers from consolidation fair value reserve	22	**6**	6	**-**	-
- dilution gain recognised on CSL New World Mobility Group merger (ii)	24	**-**	18	**-**	-
Closing balance		**6,976**	7,179	**6,310**	6,338

(i) Adjustment on adoption of AASB 132 ”Financial Instruments: Disclosure and Presentation” and AASB 139: “Financial Instruments: Recognition and Measurement” from 1 July 2005.

(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 cash flow statement

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
(a) Reconciliation of profit to net cash provided by operating activities					
Profit for the year		**3,275**	3,183	**3,438**	3,239
Add/(subtract) the following transactions					
Depreciation and amortisation	7	**4,082**	4,078	**3,588**	3,648
Finance income	6	**(57)**	(74)	**(47)**	(71)
Finance costs	7	**1,144**	1,007	**1,147**	990
Dividend revenue	6	**-**	-	**(186)**	(560)
Share based payments	7	**25**	15	**25**	15
Defined benefit plan expense	7	**239**	185	**238**	182
Net gain on disposal of property, plant and equipment	6	**(6)**	(23)	**(10)**	(20)
Net gain on disposal of intangibles	6	**(2)**	-	**(2)**	-
Net gain on disposal of controlled entities	6	**(48)**	(4)	**-**	-
Net gain on disposal of other investments	6	**(13)**	(58)	**(13)**	(59)
Share of net losses/(profits) from jointly controlled and associated entities	30	**7**	(5)	**-**	-
Impairment losses (excluding inventories, trade and other receivables)	7	**154**	137	**249**	760
Reversal of impairment losses (excluding trade and other receivables)	7	**-**	-	**(2)**	(15)
Foreign exchange differences		**(7)**	28	**(52)**	(46)
Other		**-**	4	**-**	9
Movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)					
(Increase)/decrease in trade and other receivables		**(98)**	(140)	**(109)**	(204)
(Increase)/decrease in inventories		**(107)**	10	**(96)**	14
(Increase)/decrease in prepayments and other assets		**24**	30	**12**	20
Increase/(decrease) in trade and other payables		**341**	243	**337**	517
Increase/(decrease) in revenue received in advance		**20**	55	**19**	23
Increase/(decrease) in net taxes payable		**(210)**	(501)	**(92)**	(536)
Increase/(decrease) in provisions		**(243)**	383	**(246)**	396
Net cash provided by operating activities		**8,520**	8,553	**8,198**	8,302
(b) Reconciliation of cash balances					
Cash at the end of the year as shown in the cash flow statement agrees to the net amount of the following items in the notes to the financial statements:					
Cash and cash equivalents	10	**823**	689	**546**	474
		823	689	**546**	474

Notes to the Financial Statements (continued)

24. Notes to the cash flow statement (continued)

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

Acquisition of assets by means of finance leases

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Acquisition of plant & equipment by means of finance leases . . .	**58**	44	**58**	44

(d) Acquisitions

SouFun Holdings Limited (SouFun)

On 31 August 2006, our controlled entity Sensis Pty Ltd acquired 55% (on an undiluted basis) of the issued capital of SouFun for a total consideration of $337 million including acquisition costs.

The effect on the Telstra Group of the acquisition is detailed below:

	SouFun	
	2007 $m	**2007 $m**
Consideration for acquisition		
Cash consideration for acquisition. . . .	**333**	
Costs of acquisition	**4**	
Total purchase consideration	**337**	
Cash balances acquired	**(23)**	
Outflow of cash on acquisition	**314**	
	Fair value	**Carrying value**
Assets/(liabilities) at acquisition date		
Cash and cash equivalents	**23**	**23**
Trade and other receivables	**8**	**8**
Property, plant and equipment.	**1**	**1**
Intangible assets.	**38**	**-**
Other assets.	**1**	**1**
Deferred tax assets	**1**	**1**
Trade and other payables	**(9)**	**(9)**
Current tax liabilities	**(2)**	**(2)**
Deferred tax liabilities	**(9)**	**-**
Revenue received in advance	**(6)**	**(6)**
Net assets	**46**	**17**
Adjustment to reflect minority interests acquired	**(21)**	
Goodwill on acquisition.	**312**	
	337	
Profit after minority interests from acquisition date until 30 June 2007 . . .	**8**	

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

Other fiscal 2007 acquisitions

On 5 June 2007, our controlled entity KAZ Group Pty Limited purchased an additional 40% interest in the issued share capital of Enhanced Processing Technologies Pty Ltd, for nominal consideration, giving us a controlling 100% ownership of this entity. Previously, Enhanced Processing Technologies Pty Ltd was a jointly controlled entity.

On 22 June 2007, we acquired an additional 25% interest in the issued share capital of 1300 Australia Pty Ltd, for a total purchase consideration of $12 million, giving us 85% ownership of this controlled entity. We recognised additional goodwill of $12 million on acquisition.

Refer to note 29 for further details on our acquisitions.

Notes to the Financial Statements (continued)

24. Notes to the cash flow statement (continued)

(d) Acquisitions (continued)

CSL New World Mobility Group

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

Under the merger agreement, Telstra CSL Limited (Telstra CSL) issued new shares to New World Mobility Holdings Limited (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%. The effect on the Telstra Group of the merger is detailed below.

	New World Mobility Group	
	2006	2006
	$m	$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	

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.

The net impact of the merger on the Telstra Group results, including the adjustment to the subscription amount in fiscal 2007, are detailed below.

	Telstra Group
	$m
Net increase in Telstra Group net assets	
Inflow (outflow) of cash on acquisition (net of transaction costs)	21
New World Mobility Group net identifiable assets acquired	246
Goodwill on acquisition of New World Mobility Group	308
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.

Notes to the Financial Statements (continued)

24. Notes to the cash flow statement (continued)

(d) Acquisitions (continued)

Other fiscal 2006 acquisitions

During fiscal 2006, we also acquired several other entities which are not individually significant and have been aggregated as 'Other'. The effect on the Telstra Group of the acquisitions are detailed below.

	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.

Other information relating to our acquisitions

During fiscal 2007, we have recognised goodwill of $345 million (2006: $324 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 2007 had occurred on 1 July 2006, our adjusted consolidated income and consolidated profit after minority interests for the year ended 30 June 2007 for the Telstra Group would have been $23,970 million and $3,255 million respectively.

If our acquisitions during fiscal 2006 had occurred on 1 July 2005, our adjusted consolidated income and consolidated profit after minority interests for the year ended 30 June 2006 for the Telstra Group would have been $23,312 million and $3,172 million respectively.

(e) Disposals

Australian Administration Services Group Pty Ltd (AAS)

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

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

	AAS
	Year ended 30 June 2007 $m
Consideration on disposal	
Cash consideration for disposal	235
Cash and cash equivalents disposed of	(23)
Costs of disposal	(4)
Inflow of cash on disposal	208

Other fiscal 2007 disposals

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

Notes to the Financial Statements (continued)

25. Impairment

Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs 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 detailed below:

	Goodwill		Intangibles with indefinite useful lives	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
CGUs				
CSL New World Mobility Group	**1,100**	1,246	**-**	-
KAZ Group	**163**	270	**-**	-
TelstraClear Group	**151**	137	**-**	-
Telstra Europe Group	**108**	113	**-**	-
Sensis Group (a) (b)	**215**	36	**-**	-
Trading Post Group (b)	**-**	179	**-**	-
Universal Publishers	**15**	15	**10**	11
Adstream Group	**29**	30	**-**	-
Telstra Business Systems	**30**	30	**-**	-
SouFun Group	**293**	-	**-**	-
1300 Australia Pty Ltd	**16**	4	**8**	8
Other	**6**	13	**-**	-
	2,126	2,073	**18**	19
Individual assets				
Trading Post mastheads (b)	**-**	-	**337**	447
	2,126	2,073	**355**	466

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

(b) In prior years the CGU used for the purposes of testing the impairment of the goodwill acquired on the acquisition of the Trading Post business also included the Trading Post mastheads and property, plant and equipment directly attributable to the CGU. During the year, as the financial and operational functions of the Trading Post business were integrated into the Sensis Group, the goodwill has been reallocated to the Sensis Group CGU. At 30 June 2007 the Trading Post mastheads have been tested for impairment on a stand alone basis except for the inclusion of software considered integral to the generation of its largely independent cash flows.

In addition to the above CGUs, we have two further significant CGUs 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 asset and 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 asset and 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 (a)		Terminal value growth rate (b)	
	As at 30 June		As at 30 June	
	2007	2006	2007	2006
	%	%	%	%
CSL New World Mobility Group.	**11.0**	11.1	**2.0**	5.0
KAZ Group	**15.6**	16.6	**3.0**	3.0
TelstraClear Group.	**16.5**	18.0	**3.0**	3.0
Telstra Europe Group	**11.4**	14.9	**3.0**	3.0
Sensis Group	**13.1**	13.7	**3.0**	3.0
Trading Post Group (c)	**-**	15.3	**-**	2.5
Universal Publishers	**13.9**	14.3	**3.0**	2.5
Adstream Group	**14.7**	18.6	**2.5**	2.5
Telstra Business Systems.	**14.4**	15.0	**3.0**	2.5
SouFun Group	**18.8**	-	**5.0**	-

(a) 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.

(b) 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 CGUs long term performance in their respective markets. The terminal growth rates for the Australian CGUs were aligned to three percent as part of the impairment testing conducted for the half year ended 31 December 2006.

(c) During the year the Trading Post Group was integrated into the Sensis Group and as such is no longer considered a separate CGU. 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.

As a result of the impairment, the carrying value of the Trading Post mastheads at 30 June 2007 is $337 million which is equal to its recoverable amount. Changes in the key assumptions used in determining the forecast cash flows could result in changes to these cash flows and further adjustments to the carrying value. Assuming the forecast cashflows are either surpassed or missed by 10%, the recoverable amount of the Trading Post mastheads will be higher or lower than its carrying amount by $28 million respectively.

The post tax discount rate used in determining the carrying value of the Trading Post mastheads was 12.6%. This discount rate includes a risk premium given the changing nature of the Trading Post business. Cash flows beyond year five have been extrapolated using an estimated terminal growth rate of 3%. This rate has been determined with regard to the projected growth rates for the specific market in which Trading Post participates and is not expected to exceed the long term average growth rates for this market.

Notes to the Financial Statements (continued)

26. Expenditure commitments

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$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	**732**	658	**625**	627
Within 1 to 5 years	**122**	97	**122**	95
After 5 years	**5**	-	**5**	-
	859	755	**752**	722
Intangible assets commitments				
Within 1 year	**233**	159	**191**	124
Within 1 to 5 years	**88**	146	**24**	121
	321	305	**215**	245
(b) Operating lease commitments				
Future lease payments for non-cancellable operating leases not recorded in the financial statements:				
Within 1 year	**373**	377	**297**	236
Within 1 to 5 years	**781**	782	**690**	475
After 5 years	**264**	313	**210**	163
	1,418	1,472	**1,197**	874

In addition, in fiscal 2007 the Telstra Group had total future commitments under cancellable operating leases of $292 million (2006: $356 million). In fiscal 2007, the Telstra Entity had total future commitments under cancellable operating leases of $291 million (2006: $354 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:
- 6 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 $24 million (2006: $19 million) for the Telstra Group and $7 million (2006: $3 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 further details.

Notes to the Financial Statements (continued)

26. Expenditure commitments (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2007	2006	2007	2006
	Note	$m	$m	$m	$m
(c) Finance lease commitments					
Within 1 year		**44**	28	**40**	22
Within 1 to 5 years		**76**	72	**58**	53
After 5 years		**47**	52	**-**	-
Total minimum lease payments		**167**	152	**98**	75
Future finance charges on finance leases		**(49)**	(51)	**(10)**	(9)
Present value of net future minimum lease payments		**118**	101	**88**	66
Included in the financial statements as:					
Current borrowings	18	**35**	20	**34**	18
Non current borrowings	18	**83**	81	**54**	48
Total finance lease liabilities	18	**118**	101	**88**	66

Description of our finance leases

We have finance leases for the following types of assets:
- property leases in our controlled entity, Telstra Europe Limited; and
- 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 16 years; and
- 4 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:
- property leases interest rate of 11.25%; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 7.7%.

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	
	2007	2006	**2007**	2006
	$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	**387**	336	**301**	316
Within 1 to 5 years	**580**	334	**505**	248
After 5 years	**83**	20	**60**	3
	1,050	690	**866**	567

Our other expenditure commitments include contracts for printing, engineering and operational support services, information technology services and building maintenance.

Information regarding our share of our jointly controlled and associated entities' commitments is included in note 30.

Notes to the Financial Statements (continued)

27. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2007. 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 2007, 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 sought damages and other relief, including that some of these contracts and arrangements are void. Seven also sought orders which would, in effect, require a significant restructure of the subscription television/sports rights markets in Australia.

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.

(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.

In November 2006, the shareholder filed a second further amended statement of claim, in response to arguments raised in our application to strike out portions of the earlier pleading.

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. On 22 December 2006, Telstra filed its defence and will vigorously defend the claim. A trial date is set for 26 November 2007.

Unconditioned Local Loop Service (ULLS) and Line Sharing Service (LSS)

ULLS is a declared service by which competitors effectively rent the copper pairs or "loops" connecting Telstra exchanges to almost all residential and business premises in Australia. The ULLS is connected to Telstra's competitors' equipment in Telstra's exchanges allowing them to provide voice and broadband services to retail customers. Once connected, no Telstra services can be provided over the ULLS. The ACCC has indicated that Telstra should charge different prices in different areas for ULLS, despite the fact that it is required to charge the same residential and business retail prices for a basic line rental service throughout Australia.

In December 2005, Telstra submitted an ULLS access undertaking with a single (or averaged) price of $30 per month for all areas. In August 2006 the ACCC issued a final decision, rejecting the undertaking on the basis that it was not satisfied that Telstra's estimate of its costs and the averaging of those costs were reasonable. Telstra appealed that rejection to the Australian Competition Tribunal but the Australian Competition Tribunal upheld the decision of the ACCC on 17 May 2007.

A number of Telstra's competitors have notified access disputes in relation to ULLS. In August 2006, the ACCC made binding interim decisions in several of these arbitrations that prices remain deaveraged and that the price in band 2 (the metropolitan area - where the greatest number of ULLS services will be provided) be reduced from $22 to $17.70 per month. In June 2007, the ACCC issued a number of draft final determinations that sets out the monthly charges for fiscal 2008 to be $6.00 for band 1, $14.40 for band 2 and $30.30 for band 3. Submissions on the prices set out in the draft final determination are due in August 2007.

LSS is a service whereby the copper wire connecting our exchanges to almost all residential and business premises in Australia is shared with a Telstra competitor. Telstra will typically provide voice services to the customer while the competitor will provide broadband services over the same copper wire.

Notes to the Financial Statements (continued)

27. Contingent liabilities and contingent assets (continued)

Telstra Entity (continued)

Unconditioned Local Loop Service (ULLS) and Line Sharing Service (LSS) (continued)

In December 2004, Telstra submitted a LSS access undertaking at $9 per month. This was rejected by the ACCC in December 2005, with the Australian Competition Tribunal upholding the ACCC's rejection in June 2006.

A number of Telstra competitors have notified access disputes in relation to LSS. On 21 December 2006, the ACCC made an interim decision in these disputes that the access charge for LSS be set at $3.20 per month. On 30 March 2007, the ACCC issued a draft final determination that the access charge for LSS be set at $2.50 per month. This draft determination has been subsequently upheld and on 12 July 2007 the ACCC issued a final determination at $2.50 per month.

When the ACCC make their final determinations on these remaining access disputes, they may find that it is reasonable for Telstra to reimburse the access seekers for the difference in the access price charged from the date in which the various access seekers lodged their access dispute or from a point prior to that time when negotiations between Telstra and the access seeker commenced.

On 24 January 2007, Telstra commenced proceedings in the High Court against the Commonwealth, the ACCC and eleven access seekers who had, prior to 24 January 2007, notified access disputes in respect of ULLS and/or LSS. Telstra is seeking declarations from the High Court that Part XIC of the Trade Practices Act is invalid as it applies to ULLS and LSS, together with administrative relief directed at each of the specific access disputes. The matter was accepted at the last directions hearing on 4 July 2007 and will be referred to the full court of the High Court for hearing, expected in November 2007.

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 $364 million (2006: $347 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 $245 million (2006: $311 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 $103 million (2006: $150 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 $21 million (2006: $69 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 $671 million (US$569 million) (2006: $843 million (US$626 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 2007, this guarantee has still been provided and $142 million (2006: $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.

Notes to the Financial Statements (continued)

27. Contingent liabilities and contingent assets (continued)

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 share of commitments under these agreements relate mainly to minimum subscriber guarantees (MSG) (refer to note 30 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 $1,712 million (2006: $1,531 million).

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 (2006: $154 million).

Reach Ltd (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. 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 2007, 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 the 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 the defined benefit plans we participate in are set out below.

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff transferred into Telstra Super. 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.

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

Contribution levels made to the defined benefit divisions are designed to ensure 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.

With the completion of the Government sale of its remaining shareholding in Telstra during the year, the employees who were members of the Commonwealth Superannuation Scheme were required to transfer to Telstra Super. There was no financial impact as a result.

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. Actuarial investigations are undertaken annually for this scheme.

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

Measurement dates

For Telstra Super actual membership data as at 30 April was used to value precisely the defined obligations as at that date. Details of assets, contributions, benefit payments and other cash flows as at 31 May were also provided in relation to Telstra Super. These April and May figures were then rolled up to 30 June to allow for changes and used in the actuarial valuation.

Actual membership data as at 31 May was used to precisely measure the defined benefit liability as at that date for the HK CSL Retirement Scheme. Details of assets, contributions, benefit payments and other cash flows as at 31 May were also provided in relation to the HK CSL Retirement Scheme.

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 in the following pages.

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. The Telstra Group made contribution to these schemes of $28 million for fiscal 2007 (2006: $32 million).

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(a) Net defined benefit plan asset - historical summary

Our net defined benefit plan asset recognised in the balance sheet for the current and previous periods is determined as follows:

	Telstra Group		
	As at 30 June		
	2007	2006	2005
	$m	$m	$m
Fair value of defined benefit plan assets (d)	**4,342**	4,553	4,518
Present value of the defined benefit obligation (e)	**3,646**	3,675	4,308
Net defined benefit asset before adjustment for contributions tax	**696**	878	210
Adjustment for contributions tax	**118**	151	37
Net defined benefit asset in the balance sheet at 30 June (i)	**814**	1,029	247
Experience adjustments:			
Experience adjustments arising on defined benefit plan assets - gain	**261**	480	155
Experience adjustments arising on defined benefit obligations - gain/(loss)	**69**	(206)	(44)

	Telstra Entity		
	As at 30 June		
	2007	2006	2005
	$m	$m	$m
Fair value of defined benefit plan assets (d)	**4,244**	4,458	4,439
Present value of the defined benefit obligation (e)	**3,578**	3,605	4,234
Net defined benefit asset before adjustment for contributions tax	**666**	853	205
Adjustment for contributions tax	**118**	151	37
Net defined benefit asset in the balance sheet at 30 June (i)	**784**	1,004	242
Experience adjustments:			
Experience adjustments arising on defined benefit plan assets - gain	**252**	474	152
Experience adjustments arising on defined benefit obligations - gain/(loss)	**70**	(206)	(47)

(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	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
The components of defined benefit plan expense recognised in the income statement within labour expenses are as follows:				
Current service cost	**188**	227	**184**	220
Interest cost	**187**	205	**184**	202
Expected return on plan assets	**(316)**	(322)	**(310)**	(316)
Member contributions	**(17)**	(40)	**(17)**	(39)
Curtailment loss/(gain)	**38**	(17)	**38**	(17)
Plan expenses after tax	**10**	15	**10**	15
Notional transfer of funds for defined contribution benefits	**114**	89	**114**	89
Adjustment for contributions tax	**35**	28	**35**	28
	239	185	**238**	182
The movements in the defined benefit plan asset recognised directly in equity in the statement of recognised income and expense are as follows:				
Actuarial gains on defined benefit plans	**21**	820	**15**	803
Adjustment for contributions tax	**2**	142	**2**	142
	23	962	**17**	945
Cumulative actuarial gains recognised directly in equity	**895**	872	**877**	860

Notes to the Financial Statements (continued)

28. Post employment benefits (continued)

(c) Categories of plan assets

The 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			
	2007		2006		2007		2006	
	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %
Asset allocations								
Equity instruments	**35**	**43**	68	69	**60**	**58**	60	61
Debt instruments	**18**	**11**	12	10	**35**	**37**	35	32
Property	**10**	**13**	15	16	**-**	**-**	-	-
Cash	**2**	**5**	5	5	**5**	**5**	5	7
Private equity	**11**	**8**	-	-	**-**	**-**	-	-
Infrastructure	**5**	**3**	-	-	**-**	**-**	-	-
International hedge funds	**19**	**17**	-	-	**-**	**-**	-	-
	100	**100**	100	100	**100**	**100**	100	100

The 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, property, private equity, infrastructure and international hedge funds. The trustee of Telstra Super constantly reviews the investments and adjusts the 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.

Telstra Super's investments in debt and equity instruments include bonds issued by and shares in Telstra Corporation Limited. Refer to note 33 for further details.

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	
	2007	2006	2007	2006
	$m	$m	$m	$m
Fair value of defined benefit plan assets at beginning of year	**4,553**	4,518	**4,458**	4,439
Expected return on plan assets	**316**	322	**310**	316
Employer contributions	**3**	3	**-**	-
Member contributions	**30**	46	**30**	45
Notional transfer of funds for defined contribution benefits	**(114)**	(89)	**(114)**	(89)
Benefits paid (i)	**(685)**	(715)	**(682)**	(712)
Actuarial gains	**261**	480	**252**	474
Plan expenses after tax	**(10)**	(15)	**(10)**	(15)
Foreign currency exchange differences	**(12)**	3	**-**	-
Fair value of defined benefit plan assets at end of year	**4,342**	4,553	**4,244**	4,458

The actual return on defined benefit plan assets was 16.6% (2006: 16.2%) for Telstra Super and 17.9% (2006: 12.3%) 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	
	2007	2006	2007	2006
	$m	$m	$m	$m
Present value of defined benefit obligation at beginning of year	**3,675**	4,308	**3,605**	4,234
Current service cost	**188**	227	**184**	220
Interest cost	**187**	205	**184**	202
Member contributions	**12**	7	**12**	7
Benefits paid (i)	**(685)**	(715)	**(682)**	(712)
Actuarial losses/(gains)	**240**	(340)	**237**	(329)
Curtailment loss/(gain)	**38**	(17)	**38**	(17)
Foreign currency exchange differences	**(9)**	-	**-**	-
Present value of wholly funded defined benefit obligation at end of year	**3,646**	3,675	**3,578**	3,605

(i) Benefits paid includes $653 million (2006: $640 million) of entitlements (to exiting defined benefit members) which have been retained in Telstra Super but transferred to the defined contribution scheme.

For fiscal 2008, Telstra Super expect to pay $172 million for total benefit payments reflecting expected future service.

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	
	2007 %	2006 %	**2007** %	2006 %
Discount rate	**5.1**	4.7	**5.0**	3.7
Expected rate of return on plan assets (i)	**7.0**	7.5	**6.8**	6.8
Expected rate of increase in future salaries	**3.0**	4.0	**4.0**	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	
	2007 %	2006 %	**2007** %	2006 %
Discount rate (ii)	**5.1**	5.1	**4.75**	5.0
Expected rate of increase in future salaries (iii)	**3.5 - 4.0**	3.0	**4.0**	4.0

(i) The expected rate of return on plan 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 plan 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 plan assets for fiscal 2008 is 8% for Telstra Super and 7.4% for HK CSL Retirement Scheme.

(ii) 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.

For the HK CSL Retirement Scheme we have extrapolated the 7 year and 10 year yields of the Hong Kong Exchange Fund Notes to 16 years to match the term of the defined benefit obligations.

(iii) The salary inflation rate has been assumed to be 3.5% for fiscal 2008. For subsequent years, a rate of 4% which is reflective of our long term expectation for salary increases has been adopted.

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% or below. 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 117% as at 30 June 2007 (30 June 2006: 115%). In calculating the VBI, defined benefit members' total voluntary account balances have been excluded from Telstra Super's assets and vested benefits. This approach is consistent with the definition of VBI in the funding deed.

As at 30 June 2006, 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 2010 based on the scheme's financial position as at 30 June 2009.

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 2007 and 30 June 2006. 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.

Telstra Entity's contribution to the defined contribution divisions of Telstra Super were insignificant for fiscal 2007 and fiscal 2006. Based on the latest actuarial investigation, we do not expect to make any contributions to Telstra Super during fiscal 2008.

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 2007 were $3 million (2006: $3 million). We expect to contribute $2 million to our HK CSL Retirement Scheme in fiscal 2008.

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 (including defined benefit members' total voluntary account balances) 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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Telstra Super (ii)	**4,211**	4,449	**2,904**	3,079	**1,307**	1,370	**3,610**	3,853
HK CSL Retirement Scheme (iii)	**98**	94	**65**	74	**33**	20	**66**	68
	4,309	4,543	**2,969**	3,153	**1,340**	1,390	**3,676**	3,921

(i) In accordance with AAS 25: "Financial Reporting by Superannuation Plans" the 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 2007 and 30 June 2006. 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 2007 and 30 June 2006. The scheme assets are stated at net market values.

The estimated period over which the benefits of the members will be returned is 12.6 years for Telstra Super (2006: 11 years) and 14.5 years for the HK CSL Retirement Scheme (2006: 14.5 years).

The net surplus under AAS 25 of $1,340 million (30 June 2006: $1,390 million) differs from the net defined benefit asset of $814 million (30 June 2006: $1,029 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

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	
		2007	2006	**2007**	2006
		$m	$m	**%**	%
Parent entity					
Telstra Corporation Limited (a)	Australia				
Controlled entities					
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**	393	**100.0**	100.0
Telstra Multimedia Pty Limited (a)	Australia	**2,678**	2,678	**100.0**	100.0
Telstra International Limited (a)	Australia	**2**	2	**100.0**	100.0
Telstra New Wave Pty Ltd	Australia	**1**	1	**100.0**	100.0
Telstra Pay TV Pty Ltd (a)	Australia	**-**	-	**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
Telstra 3G Spectrum Holdings Pty Ltd	Australia	**302**	302	**100.0**	100.0
1300 Australia Pty Ltd (g)	Australia	**18**	5	**85.0**	60.0
Telstra OnAir Holdings Pty Ltd	Australia	**478**	478	**100.0**	100.0
Converged Networks Pty Ltd	Australia	**1**	1	**100.0**	100.0
Telstra Payment Solutions Pty Limited	Australia	**56**	56	**100.0**	100.0
ESA Holdings Pty Ltd (b)	Australia	**-**	-	**-**	100.0
Telstra Business Systems Pty Ltd (a)	Australia	**69**	69	**100.0**	100.0
Telstra Communications Limited (a)	Australia	**29**	29	**100.0**	100.0
• Telecom Australia (Saudi) Company Limited (c) (d)	Saudi Arabia	**-**	-	**50.0**	50.0
Telstra Rewards Pty Ltd	Australia	**14**	14	**100.0**	100.0
• Telstra Visa Card Trust	Australia	**-**	-	**100.0**	100.0
• Qantas Telstra Card Trust	Australia	**-**	-	**100.0**	100.0
• Telstra Visa Business Card Trust	Australia	**-**	-	**100.0**	100.0
Telstra Media Holdings Pty Limited (b)	Australia	**-**	30	**-**	100.0
• Telstra Enterprise Services Pty Limited (b)	Australia	**-**	-	**-**	100.0
Communications Network Holdings Pty Ltd	Australia	**4**	4	**100.0**	100.0
• Advanced Digital Communications (WA) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Western Communications Solutions Pty Ltd	Australia	**-**	-	**100.0**	100.0
Adstream (Aust) Pty Ltd	Australia	**23**	23	**58.0**	58.0
• Adstream Limited	New Zealand	**-**	-	**100.0**	100.0
• Quickcut (Aust) Pty Ltd	Australia	**-**	-	**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	
		2007	2006	**2007**	2006
Controlled entities (continued)		**$m**	$m	**%**	%
Telstra Holdings Pty Ltd (a)	Australia	**7,176**	7,176	**100.0**	100.0
• Telstra International Holdings Limited (f)	Bermuda	**-**	-	**100.0**	-
• SouFun Holdings Limited (c) (e) (f)	Cayman Islands	**-**	-	**55.1**	-
• SouFun.com (Shenzen) Ltd (e) (f)	China	**-**	-	**100.0**	-
• SouFun.com (Tianjin) Ltd (e) (f)	China	**-**	-	**100.0**	-
• SouFun.com (Chongqing) Ltd (e) (f)	China	**-**	-	**100.0**	-
• SouFun.com (Guangzhou) Ltd (e) (f)	China	**-**	-	**100.0**	-
• SouFun.com (Shanghai) Ltd (e) (f)	China	**-**	-	**100.0**	-
• SouFun Network Technology (Beijing) Co. Limited (e) (f)	China	**-**	-	**100.0**	-
• SouFun Media Technology (Beijing) Co. Ltd (e) (f)	China	**-**	-	**100.0**	-
• Beijing SouFun Information Consultancy Co. Ltd (e) (f)	China	**-**	-	**90.0**	-
• China Index Academy Limited (e) (f)	Hong Kong	**-**	-	**100.0**	-
• Beijing Jia Tian Xia Advertising Co. Ltd (d) (e) (f)	China	**-**	-	**-**	-
• Beijing SouFun Internet Information Service Co. Ltd (d) (e) (f)	China	**-**	-	**-**	-
• Beijing SouFun Science and Technology Development Co. Ltd (d) (e) (f)	China	**-**	-	**-**	-
• Beijing China Index Information Co. Ltd (d) (e) (f)	China	**-**	-	**-**	-
• Shanghai Jia Biao Tang Advertising Co. Ltd (d) (e) (f)	China	**-**	-	**-**	-
• Beijing Australia Telecommunications Technical Consulting Services Company Limited (c)	China	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No. 2 Limited	Bermuda	**-**	-	**100.0**	100.0
• CSL New World Mobility Limited	Bermuda	**-**	-	**76.4**	76.4
• Bestclass Holdings Ltd	British Virgin Islands	**-**	-	**100.0**	100.0
• Hong Kong CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• Integrated Business Systems Limited	Hong Kong	**-**	-	**100.0**	100.0
• One2Free PersonalCom Ltd	Hong Kong	**-**	-	**100.0**	100.0
• CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World PCS Holdings Limited	Cayman Islands	**-**	-	**100.0**	100.0
• New World 3G Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World PCS Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World Mobility Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	**-**	-	**100.0**	100.0
• Telstra International HK Limited	Hong Kong	**-**	-	**100.0**	100.0
• Damovo HK Ltd	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Japan Retail KK	Japan	**-**	-	**100.0**	100.0
• Telstra Singapore Pte Ltd	Singapore	**-**	-	**100.0**	100.0
• Telstra Global Limited	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara	Indonesia	**-**	-	**100.0**	100.0
• Telstra Europe Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (Cable Telecom) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (PSINet) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (CTE) Limited	United Kingdom	**-**	-	**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	
		2007	2006	**2007**	2006
Controlled entities (continued)		**$m**	$m	**%**	%
• Cable Telecommunication Ltd	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Datacentre UK Ltd	United Kingdom	**-**	-	**100.0**	100.0
• Inteligen Communications Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra Jersey Limited	Jersey	**-**	-	**100.0**	100.0
• PSINet Hosting Centre Ltd	Jersey	**-**	-	**100.0**	100.0
• Cordoba Holdings Ltd	Jersey	**-**	-	**100.0**	100.0
• London Hosting Centre Ltd	Jersey	**-**	-	**100.0**	100.0
• Telstra Inc	United States	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (c)	India	**-**	-	**100.0**	100.0
• Telstra Limited	New Zealand	**-**	-	**100.0**	100.0
• Telstra New Zealand Holdings Limited	New Zealand	**-**	-	**100.0**	100.0
• TelstraClear Limited	New Zealand	**-**	-	**100.0**	100.0
• TelstraSaturn Holdings Limited	New Zealand	**-**	-	**100.0**	100.0
• Sytec Resources Ltd	New Zealand	**-**	-	**100.0**	100.0
• Sytec Resources (Australia) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• DMZ Global (Australia) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• CLEAR Communications Limited	New Zealand	**-**	-	**100.0**	100.0
Network Design and Construction Limited (a)	Australia	**20**	20	**100.0**	100.0
• NDC Global Holdings Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited	India	**-**	-	**98.0**	98.0
• PT NDC Indonesia	Indonesia	**-**	-	**95.0**	95.0
• NDC Global Philippines Limited (b)	Philippines	**-**	-	**-**	100.0
• NDC Global Services Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited	India	**-**	-	**2.0**	2.0
Telstra Services Solutions Holdings Limited (a)	Australia	**911**	911	**100.0**	100.0
• Telstra CB.net Limited (b)	Australia	**-**	-	**-**	100.0
• Telstra CB.Com Limited (b)	Australia	**-**	-	**-**	100.0
• Telstra CB.fs Limited (b)	Australia	**-**	-	**-**	100.0
• Telstra eBusiness Services Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Australasian Insurance Systems Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• TRC Computer Systems Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• DBA Ltd (b)	Australia	**-**	-	**-**	100.0
• Brokerlink Pty Ltd (b)	Australia	**-**	-	**-**	81.3
• DBA Computer Systems Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Brokerlink Pty Ltd (b)	Australia	**-**	-	**-**	18.7
• KAZ Group Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• KAZ Business Services Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• KAZ Computer Services (SEA) Pte Limited (b)	Singapore	**-**	-	**-**	100.0
• KAZ Computer Services (HK) Ltd	Hong Kong	**-**	-	**75.0**	75.0
• KAZ Business Services Australia Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Enhanced Processing Technologies Inc	United States	**-**	-	**100.0**	100.0
• Enhanced Processing Technologies Pty Ltd (f)	Australia	**-**	-	**100.0**	-
• Australian Administration Services Pty Ltd (h)	Australia	**-**	-	**-**	100.0
• AAS Superannuation Services Pty Limited (h)	Australia	**-**	-	**-**	100.0
• Atune Financial Solutions Pty Ltd (a) (h)	Australia	**-**	-	**-**	100.0
• KAZ Software Solutions Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Techsouth Pty Ltd (b)	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	
		2007	2006	**2007**	2006
Controlled entities (continued)		**$m**	$m	**%**	%
• KAZ Technology Services Australia Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• IOCORE Asia Pacific Pty Ltd	Australia	**-**	-	**100.0**	100.0
Sensis Pty Ltd (a) (h)	Australia	**851**	851	**100.0**	100.0
• Platefood Limited (h)	United Kingdom	**-**	-	**-**	61.0
• Just Listed Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Research Resources Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Queensland Trading Post Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Trading Post Marketing (Qld) Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Trading Post on the Net Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• CitySearch Australia Pty Ltd	Australia	**-**	-	**100.0**	100.0
• CitySearch Canberra Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Trading Post (Australia) Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• 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	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 (b)	Australia	**-**	-	**-**	100.0
• Sydney Auto Trader Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Ad Mag SA & NSW Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Ad Mag AGI Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Trading Post (AW) Pty Limited (b)	Australia	**-**	-	**-**	100.0
• Warranty Direct (Australia) Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Trading Post (TCA) Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post Australia Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Appraised Staff Agency Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Tradernet Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Trading Post Classifieds Pty Limited (b)	Australia	**-**	-	**-**	100.0
• Trading Post On Line Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Sensis Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Invizage Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• PC S.O.S. Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Universal Publishers Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Sensis (Victoria) Pty Ltd	Australia	**-**	-	**100.0**	100.0
Total investment in consolidated entities		**13,045**	13,062		

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

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee

A new deed of cross guarantee was entered into on 28 June 2006, pursuant to an ASIC Order dated 22 June 2006 (ASIC Order).

The following companies are part of the deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Corporate Services Pty Limited;
- Telstra Multimedia Pty Limited;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- NDC Global Services Pty Limited;
- NDC Global Holdings Pty Ltd;
- Telstra Services Solutions Holdings Limited;
- Telstra eBusiness Services Pty Limited;
- KAZ Group Pty Limited;
- KAZ Business Services Pty Ltd;
- KAZ Software Solutions Pty Ltd;
- Sensis Pty Ltd;
- Trading Post (Australia) Holdings Pty Ltd;
- Trading Post Group Pty Limited;
- The Melbourne Trading Post Pty Ltd;
- The National Trading Post Pty Ltd;
- Collectormania Australia Pty Ltd;
- The Personal Trading Post Pty Limited;
- Auto Trader Australia Pty Ltd;
- WA Auto Trader Pty Ltd;
- Just Listed Pty Limited;
- Trading Post (TCA) Pty Ltd;
- Trading Post Australia Pty Limited;
- Universal Publishers Pty Limited;
- Invizage Pty Ltd *;
- Sensis Holdings Pty Ltd *;
- Telstra Pay TV Pty Limited *; and
- Telstra Business Systems Pty Limited *.

* Companies added during the year by way of an assumption deed dated 22 June 2007.

Atune Financial Services Pty Ltd was sold during the year and removed from the deed by way of a notice of disposal on 30 May 2007. Refer to (h) for further details.

Telstra Finance Limited is trustee, however it is not a group entity under the 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.

ASIC deed of cross guarantee financial information

The consolidated income statement and balance sheet of the 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)

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

Closed group balance sheet	Closed group	
	As at 30 June	
	2007	2006
	$m	$m
Current assets		
Cash and cash equivalents	**592**	479
Trade and other receivables	**3,585**	3,397
Inventories	**292**	182
Derivative financial assets	**41**	22
Prepayments	**225**	190
Total current assets	**4,735**	4,270
Non current assets		
Trade and other receivables	**1,151**	935
Inventories	**17**	19
Investments - accounted for using the equity method	**15**	22
Investments - other	**3,473**	3,348
Property, plant and equipment	**22,834**	21,792
Intangible assets	**4,203**	3,461
Deferred tax assets	**1**	-
Derivative financial assets	**249**	392
Defined benefit assets	**784**	1,004
Total non current assets	**32,727**	30,973
Total assets	**37,462**	35,243
Current liabilities		
Trade and other payables	**3,848**	2,991
Borrowings	**3,007**	2,531
Current tax liabilities	**413**	413
Provisions	**610**	708
Derivative financial liabilities	**177**	13
Revenue received in advance	**1,141**	1,089
Total current liabilities	**9,196**	7,745
Non current liabilities		
Trade and other payables	**58**	65
Borrowings	**11,780**	11,376
Deferred tax liabilities	**1,440**	1,615
Provisions	**821**	952
Derivative financial liabilities	**1,328**	768
Revenue received in advance	**368**	401
Total non current liabilities	**15,795**	15,177
Total liabilities	**24,991**	22,922
Net assets	**12,471**	12,321
Equity		
Share capital	**5,611**	5,569
Reserves	**41**	18
Retained profits	**6,819**	6,734
Equity available to the closed group	**12,471**	12,321

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

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

Closed group income statement and retained profits reconciliation	Closed group	
	Year ended 30 June	
	2007	2006
	$m	$m
Income		
Revenue (excluding finance income)	**21,955**	20,285
Other income	**263**	304
	22,218	20,589
Expenses		
Labour	**3,737**	3,843
Goods and services purchased	**4,200**	3,343
Other expenses	**4,584**	4,317
	12,521	11,503
Share of net loss/(gain) from jointly controlled and associated entities	**7**	(10)
	12,528	11,493
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,690**	9,096
Depreciation and amortisation	**3,687**	3,712
Earnings before interest and income tax expense (EBIT)	**6,003**	5,384
Finance income	**107**	128
Finance costs	**1,131**	983
Net finance costs	**1,024**	855
Profit before income tax expense	**4,979**	4,529
Income tax expense	**1,435**	1,381
Profit for the year available to the closed group	**3,544**	3,148
Retained profits at the beginning of the financial year available to the closed group	**6,734**	7,894
Actuarial gain on defined benefit plans (net of tax effect)	**13**	661
Effect on retained earnings from removal of entities from the closed group	**(27)**	-
Effect on retained earnings from addition of new entities to the closed group	**34**	
Total available for distribution	**10,298**	11,703
Dividends paid	**3,479**	4,969
Retained profits at the end of the financial year available to the closed group	**6,819**	6,734

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(b) Liquidations and deregistrations

The following companies were liquidated or deregistered during fiscal 2007:

- DBA Ltd;
- Brokerlink Pty Ltd;
- DBA Computer Systems Pty Ltd;
- TRC Computer Systems Pty Ltd;
- Australasian Insurance Systems Pty Ltd;
- Telstra Media Holdings Pty Limited;
- Telstra Enterprise Services Pty Limited;
- Telstra CB.net Limited;
- NDC Global Philippines Limited;
- Telstra CB.Com Limited;
- CitySearch Canberra Pty Ltd;
- Sydney Buy & Sell Pty Ltd;
- Sydney Auto Trader Pty Ltd;
- Ad Mag SA & NSW Pty Ltd;
- Ad Mag AGI Pty Ltd;
- Trading Post (AW) Pty Limited;
- Warranty Direct (Australia) Pty Ltd;
- Queensland Trading Post Pty Ltd;
- Trading Post Marketing (Qld) Pty Ltd;
- Trading Post On The Net Pty Ltd;
- Appraised Staff Agency Pty Ltd;
- Tradernet Pty Ltd;
- Trading Post Classifieds Pty Limited;
- Trading Post On Line Pty Ltd;
- PC S.O.S. Pty Ltd;
- Telstra CB.fs Limited;
- KAZ Business Services Australia Pty Ltd;
- ESA Holdings Pty Ltd;
- KAZ Computer Services (SEA) Pte Limited;
- Techsouth Pty Ltd; and
- KAZ Technology Services Australia Pty Ltd.

(c) Controlled entities with different balance dates

The following companies have balance dates that differ from our balance date of 30 June for fiscal 2007:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December;
- Telstra India (Private) Limited - 31 March; and
- SouFun Holdings Limited - 31 December.

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

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

- We have no direct equity interest in the following entities:
  - 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.

  The purpose of these entities is to hold the licenses and approvals required to operate SouFun Holdings Limited's internet content provision and advertising business respectively. SouFun Holdings Limited has the decision-making powers to control these entities. SouFun Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- 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.

(e) Controlled entities not individually audited by Ernst and Young

Companies not audited by Ernst and Young, our Australian statutory auditor.

Notes to the Financial Statements (continued)

29. Investments in controlled entities (continued)

(f) New incorporations and business combinations

- 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 Limited (SouFun) for a total consideration of $337 million including acquisition costs. The SouFun Group 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.

- 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. Refer to note 30 for further details.

(g) 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%.

(h) Sales and disposals

- 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.

Furthermore, subsequent to balance date on 31 July 2007, our controlled entity KAZ Group Pty Limited sold its 100% shareholding in KAZ Business Services Pty Ltd, KAZ Software Solutions Pty Ltd and Enhanced Processing Technologies Pty Ltd for a net consideration of $3 million.

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	
		2007	2006	**2007**	2006	**2007**	2006
		%	%	**$m**	$m	**$m**	$m
Jointly controlled entities							
FOXTEL Partnership (i)	Pay television	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Television Partnership (i)	Pay television	**50.0**	50.0	**-**	-	**-**	-
Customer Services Pty Limited (i)	Customer service	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Limited (i)	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (a) (i)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Reach Ltd (incorporated in Bermuda) (f) (i)	International connectivity services	**50.0**	50.0	**-**	-	**-**	-
TNAS Limited (incorporated in New Zealand) (f) (i)	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 (c)	Business process outsourcing	**-**	60.0	**-**	1	**-**	-
3GIS Pty Ltd (f)	Management services	**50.0**	50.0	**-**	-	**-**	-
3GIS Partnership (f)	3G network services	**50.0**	50.0	**-**	-	**-**	-
Bridge Mobile Pte Ltd (incorporated in Singapore) (d) (f)	Regional roaming provider	**10.8**	12.5	**1**	1	**-**	-
m.Net Corporation Limited	Mobile phone content provider	**26.3**	26.3	**-**	-	**-**	-
				1	2	**-**	-
Associated entities							
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (f) (i)	Network cable provider	**46.9**	46.9	**-**	-	**-**	-
Telstra Super Pty Ltd (a) (i)	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
Keycorp Limited (e)	Electronic transactions solutions	**47.6**	47.6	**12**	18	**12**	18
Telstra Foundation Ltd (a)	Charitable trustee organisation	**100.0**	100.0	**-**	-	**-**	-
LinkMe Pty Ltd (d)	Internet recruitment provider	**41.3**	40.0	**3**	3	**-**	-
				15	21	**12**	18

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

(*) 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) Jointly controlled and associated 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 other 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.

(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 for further details.

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

(c) 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.

(d) 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.

(e) Fair value of investments in listed jointly controlled and associated entities

- The fair value of our investment in Keycorp Limited at 30 June 2007 is $15 million (2006: $37 million).

Notes to the Financial Statements (continued)

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

(f) 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 2007:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December;
- Bridge Mobile Pte Ltd - 31 March; 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.

(g) 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

Notes to the Financial Statements (continued)

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

(h) 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		Associated entities	
		Telstra Group		Telstra Group	
		Year ended/As at 30 June		Year ended/As at 30 June	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Carrying amount of investments at beginning of year		**2**	36	**21**	12
Additional investments made during the year		**1**	5	**1**	-
		3	41	**22**	12
Share of profits/(losses) before income tax expense		**-**	6	**(7)**	(3)
Share of income tax expense		**-**	-	**-**	1
Share of profits/(losses) for the year after income tax expense		**-**	6	**(7)**	(2)
Amortisation of unrealised inter-entity profits after income tax		**-**	1	**-**	-
Share of (losses)/profits for the year		**-**	7	**(7)**	(2)
Share of foreign currency translation reserve and movements due to exchange rate translations		**(1)**	1	**-**	-
Sale, transfers and reductions of investments during the year		**(1)**	(47)	**-**	(15)
Other		**-**	-	**-**	26
Carrying amount of investments at end of year	13	**1**	2	**15**	21
Our share of contingent liabilities of jointly controlled and associated entities		**-**	-	**1**	6
Our share of capital commitments contracted for by our jointly controlled and associated entities (i)		**27**	11	**-**	-
Our share of other expenditure commitments contracted for by our jointly controlled and associated entities (other than the supply of inventories) (i) (ii)		**1,897**	2,033	**1**	2

(i) Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately $3,424 million (2006: $3,354 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, 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.

(ii) Our jointly controlled entity, 3GIS Partnership, has other commitments amounting to $309 million (2006: $307 million). The majority of our 50% share of these commitments relate to property leases. These leases are for periods of between 5 and 30 years and are based on future property payments under agreements entered into between the 3GIS Partnership and various other parties.

Under the Telstra Network Access Contract dated 6 December 2004, we are charged a 3G Network Access Charge that includes our 50% share of the Partnerships operational expenditure. As we are obligated through this agreement to fund our share of the Partnerships operating expenditure we are also responsible for our share of its expenditure commitments.

Notes to the Financial Statements (continued)

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

(h) 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	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Current assets	**494**	556	**85**	73
Non current assets	**754**	811	**289**	346
Total assets	**1,248**	1,367	**374**	419
Current liabilities	**1,011**	950	**42**	58
Non current liabilities	**675**	927	**505**	536
Total liabilities	**1,686**	1,877	**547**	594
Net assets	**(438)**	(510)	**(173)**	(175)
Total income	**3,608**	2,152	**99**	150
Total expenses	**3,583**	2,067	**130**	180
Profit/(loss) before income tax expense	**25**	85	**(31)**	(30)
Income tax expense/(benefit)	**1**	3	**(1)**	4
Profit/(loss) for the year	**24**	82	**(30)**	(34)

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

	Jointly controlled entities 2007 $m	Jointly controlled entities 2006 $m	Associated entities 2007 $m	Associated entities 2006 $m
Total income	**2,082**	1,369	**47**	71
Total expenses	**2,068**	1,326	**61**	85
Profit/(loss) before income tax expense	**14**	43	**(14)**	(14)
Income tax expense/(benefit)	**-**	2	**(1)**	2
Profit/(loss) for the year	**14**	41	**(13)**	(16)

Notes to the Financial Statements (continued)

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

(i) 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	**Cumulative**	Period	Cumulative
	2007	**2007**	2006	2006
	$m	**$m**	$m	$m
Jointly controlled entities				
FOXTEL (*)	**(34)**	**83**	(1)	117
Reach Ltd	**20**	**595**	(34)	575
Associated entities				
Australia-Japan Cable Holdings Limited	**10**	**153**	36	143
	(4)	**831**	1	835

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

- TNAS Limited; and
- Telstra Super Pty Ltd.

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

(*) FOXTEL includes the Foxtel Partnership, the Foxtel Television Partnership, Customer Services Pty Limited, FOXTEL Management Pty Limited and FOXTEL Cable Television Pty Ltd.

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:

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

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

(a) 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:

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

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

- directshare; and
- ownshare.

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 2007, we recorded an expense of $25 million for our share based payment plans operated by the Telstra Growthshare Trust (2006: $15 million). The fiscal 2007 expense for our share based payment plans includes an expense for those options relating to the fiscal 2007 long term incentive plan. The fair value of these options has been measured at a grant date of 30 June 2007 and has been allocated over the period for which the service is received which commenced 31 January 2007.

As at 30 June 2007, we had a total expense yet to be recognised of $68 million (2006: $25 million), which is expected to be recognised over a weighted average of 2 years (2006: 2 years).

Our election not to apply the measurement provisions of 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 in relation to these share-based payment 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.

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, deferred shares under our deferred remuneration plan and incentive shares under our short term incentive plan. Instruments issued represent a right to acquire a share in Telstra. Further information regarding each type of instrument we have allocated is detailed below:

Options

We have the following six types of options currently on issue:

- total shareholder return options (TSR options) - are based on growth in Telstra's total shareholder return;
- revenue growth options (RG options) - are based on increases in Telstra's revenue;
- next generation network options (NGN options) - are based on completion of certain elements associated with Telstra's next generation network;
- information technology transformation options (ITT options) - are based on completion of certain elements in Telstra's transformation program and the rationalisation of the number of business support systems (BSS) and operational support systems (OSS) used by companies in the Telstra Group;
- return on investment options (ROI options) - are based on an increase in the earnings before interest and tax for Telstra relative to the average investment; and
- accelerator options (ACC options) - are based on increases in Telstra's earnings before interest, tax, depreciation and amortisation (EBITDA).

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(i) Nature of share plans (continued)

Options (continued)

An executive is not entitled to Telstra shares unless the options allocated under Telstra Growthshare initially vest, meet the gateway TSR hurdle (for fiscal 2007 option grants only) and then are exercised. This means that the executive cannot use options to vote or receive dividends. If the performance hurdles are satisfied in the applicable performance period and the gateway TSR hurdle is achieved after four years, options may be exercised at any time before the expiry date (but will lapse if not exercised by the expiry date).

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

Details of the performance hurdles for options are set out below.

Performance rights

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

- total shareholder return (TSR) performance rights - are based on growth in 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 the rationalisation of the number of business support systems (BSS) and operational support systems (OSS) 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 applicable 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 (but will lapse if not exercised by the expiry date). 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.

Details of the performance hurdles for performance rights are set out below.

Deferred shares

The executives were previously provided, as part of their annual fixed remuneration, 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.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(i) Nature of share plans (continued)

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 applicable performance period, the restricted shares will vest and may be exercised at any time before the expiry date (but will lapse if not exercised by the expiry date). Once the restricted shares have vested and been exercised, 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.

Details of the performance hurdles for restricted shares are set out below.

Incentive shares

As part of the fiscal 2007 short term incentive scheme, the Board will allocate 25% of executives' actual short term incentives as Telstra shares. The allocation date of these instruments will be 17 August 2007. These incentive shares will vest immediately, and the executive will be able to use the incentive shares to vote and receive dividends as and from the vesting date. However, the executive will be restricted from dealing with the vested incentive shares until after they are exercised.

Vested incentive shares are able to be exercised on the earlier of five years from the date of allocation, when the minimum level of executive shareholding has been achieved, upon the ceasing of employment by the executive and a date the Board determines (in response to an actual or likely change of control). Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive.

In fiscal 2005, 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 executives' continued employment with any entity that forms part of the Telstra Group. Any instruments that have not been exercised within two years of the applicable vesting date will lapse. The executives 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.

Refer below for further information about incentive shares granted through the Telstra Growthshare Trust.

(ii) Performance hurdles

Performance hurdles for instruments issued in fiscal 2007

The options issued in fiscal 2007 will vest depending on the achievement of the relevant performance measures, as detailed below.

A gateway TSR hurdle has been introduced. If the hurdle is not met at 30 June 2010, none of the options granted under the fiscal 2007 plan will be exercisable, irrespective of whether any options have previously vested.

The Board may, in its discretion, reset the hurdles governing the fiscal 2007 allocation of options on the occurrence of one or more of the following factors:

- a material change in the strategic business plan;
- a material regulatory change occurs; or
- a significant out-of- plan business development occurs resulting in a material change to EBITDA - this could be either a positive or adverse change for Telstra, but does not include improved or deteriorated operating or financial performance of Telstra's existing businesses.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(ii) Performance hurdles (continued)

Performance hurdles for instruments issued in fiscal 2007 (continued)

TSR options

For TSR options allocated in fiscal 2007, the applicable performance hurdle is based on the market value of Telstra shares and the value of any other benefits paid or made available to Telstra shareholders, including dividends. There are three performance periods and TSR options have been allocated to each period. These TSR options vest if the growth in Telstra's total shareholder return exceeds certain targets over the relevant performance period. The performance period result is calculated as follows:

- if the minimum target is achieved, then 50% of the allocation of options for that period will vest;
- if the result achieved is between the minimum and maximum targets, then the number of vested options is scaled proportionately between 50% and 100%; or
- if the maximum target is achieved, then 100% of the options will vest.

The number of options that will vest in the first (1 July 2006 to 30 June 2008) and second (1 July 2006 to 30 June 2009) performance periods is based on the performance period result calculated as above.

The maximum number of options that can vest is limited to the initial number allocated less any options that may have lapsed.

For the third performance period (1 July 2006 to 30 June 2010), the number of options that will vest is based on the performance period result. Furthermore, if the minimum target in the third performance period is met, then the following options will vest:

- if the maximum target is achieved in the third performance period, then 100% of options that did not vest in the first and second performance periods (provided they have not lapsed); or
- if the minimum target is not achieved in the first and/or second performance period respectively, and the result achieved in the third performance period is less than the maximum target, then 50% of the options that did not vest in the first and/or second performance period respectively.

RG, NGN, ITT and ROI options

Allocations of RG, ROI, NGN and ITT options are tested at set intervals between fiscal 30 June 2008 and fiscal 30 June 2010, based on performance over the applicable performance period. For each of the performance periods, the number of options that will vest is calculated as follows:

- if the minimum target is achieved in the applicable performance period, then 50% of the allocation of options will vest;
- if the result achieved is between the minimum and maximum targets, then the number of vested options is scaled proportionately between 50% and 100%; or
- if the maximum target is achieved, then 100% of the options will vest.

The maximum number of options that can vest is limited to the initial number allocated less any options that may have lapsed.

ACC options

For allocations of ACC options, the applicable performance hurdles are based on stretch EBITDA targets being reached or exceeded. These stretch targets are measured each year from 30 June 2007 to 30 June 2010 and the number of ACC options that will vest is calculated as follows:

- if, at the end of either the first (1 July 2006 to 30 June 2008), second (1 July 2008 to 30 June 2009) or third (1 July 2009 to 30 June 2010) performance period, the stretch target is achieved two years in a row, then 20% of the allocated options will vest at the end of the relevant performance period;
- if, at the end of either the second or third performance period, the stretch target is achieved three years in a row, then a further 30% of the allocated options will vest at the end of the relevant performance period; and
- if, at the end of the third performance period, the stretch target is achieved four years in a row, then the final 50% of the allocated options will vest at the end of the third performance period.

In addition, 75% of the options that do not vest, based on the calculations above, will subsequently vest if the stretch target for the four year period to 30 June 2010 is met.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(ii) Performance hurdles (continued)

Performance hurdles for instruments issued in fiscal 2006

The performance rights issued in fiscal 2006 will vest depending on the achievement of the relevant performance measures, as detailed below.

The Board may, in its discretion, reset the hurdles governing the fiscal 2006 allocation of performance rights on the occurrence of one or more of the following factors:

- a material change in the strategic business plan;
- a significant adverse business change occurs; or
- an adverse regulatory change occurs.

TSR performance rights

For allocations of TSR performance rights, 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 minimum and maximum 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, 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 minimum and maximum 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 do not vest 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 minimum and maximum 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 OEG, RG, NT and ITT performance rights will lapse.

ROI performance rights

For the allocation of ROI performance rights, 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 minimum and maximum 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)

(a) 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 meets or 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 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 that are outstanding at 30 June 2007

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)

(a) Telstra Growthshare Trust (continued)

(ii) Performance hurdles (continued)

The following outlines the targets to be achieved for the fiscal 2007 allocation of options to vest:

	3 Year options	
	Minimum target	Maximum target
TSR options	(a)	(a)
RG options	Board approved revenue growth minimum targets for the first, second and third performance period respectively	Board approved revenue growth maximum targets for the first, second and third performance period respectively
NGN options	Various network and platform builds and exits as well as a minimum number of service and exchange migrations, by minimum milestone dates	Various network and platform builds and exits as well as a minimum number of service and exchange migrations, by stretch milestone dates
ITT options	Certain BSS and OSS systems rationalised and data converted by minimum milestone dates	Certain BSS and OSS systems rationalised and data converted by stretch milestone dates
ROI options	Board approved return on investment minimum targets for the second and third performance period respectively	Board approved return on investment stretch targets for the second and third performance period respectively
ACC options	Achievement of Board approved stretch EBITDA growth targets for the four test periods from fiscal 30 June 2007 to fiscal 30 June 2010, using 30 June 2006 EBITDA as the base amount for each test period	

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 any other benefits paid or made available to Telstra shareholders, including accumulated dividends paid. This has been set by the Board.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iii) Summary of movements and other information

	Number of equity instruments						
	Outstanding at 30 June 2006	Granted	Forfeited	Exercised (i)	Expired	Outstanding at 30 June 2007	Exercisable at 30 June 2007
Growthshare 2002 - Sept 2001 allocation							
Options	12,435,000	-	(599,000)	-	-	11,836,000	11,836,000
TSR performance rights	27,000	-	(5,200)	(21,800)	-	-	-
Growthshare 2002 - Mar 2002 allocation							
Options	801,000	-	-	-	(801,000)	-	-
TSR performance rights	68,000	-	-	-	(68,000)	-	-
Growthshare 2003 - Sept 2002 allocation							
Deferred shares	216,728	-	-	(127,238)	-	89,490	89,490
TSR performance rights	1,759,223	-	(148,371)	-	-	1,610,852	-
Growthshare 2003 - Mar 2003 allocation							
Deferred shares	16,000	-	-	(16,000)	-	-	-
TSR performance rights	36,188	-	-	-	(18,094)	18,094	-
Growthshare 2004 - Sept 2003 allocation							
Deferred shares	1,430,241	-	(25,745)	(1,109,998)	-	294,498	294,498
TSR performance rights	3,827,428	-	(695,677)	-	(1,358,881)	1,772,870	-
Growthshare 2004 - Feb 2004 allocation							
Deferred shares	18,350	-	-	(13,750)	-	4,600	4,600
TSR performance rights	36,700	-	(104)	-	(18,298)	18,298	-
Growthshare 2005 - Aug 2004 allocation							
TSR performance rights	2,226,400	-	(168,524)	-	-	2,057,876	-
EPS performance rights	2,226,400	-	(129,889)	-	-	2,096,511	-
Growthshare 2006 - Feb 2006 allocation							
TSR performance rights	567,331	-	(32,336)	-	-	534,995	-
OEG performance rights	1,134,661	-	(66,303)	-	-	1,068,358	-
RG performance rights	1,134,661	-	(66,303)	-	-	1,068,358	-
NT performance rights	850,996	-	(54,068)	-	-	796,928	-
ITT performance rights	850,996	-	(54,070)	-	-	796,926	-
ROI performance rights	1,134,661	-	(58,432)	-	-	1,076,229	-
Growthshare 2007 - fiscal 2007 allocation (ii)							
TSR options	-	7,677,589	-	-	-	7,677,589	-
RG options	-	5,758,177	-	-	-	5,758,177	-
NGN options	-	5,758,198	-	-	-	5,758,198	-
ITT options	-	5,758,194	-	-	-	5,758,194	-
ROI options	-	5,758,191	-	-	-	5,758,191	-
ACC options	-	15,355,175	-	-	(1,919,397)	13,435,778	-

(i) The weighted average share price for instruments exercised during the financial year was $3.61 for the September 2001 allocation of performance rights and $3.64 for the September 2002, March 2003, September 2003 and February 2004 allocation of deferred shares respectively. These share prices were based on the closing market price on those dates.

(ii) The options granted during the year only includes those granted to our senior executives as they were notified prior to 30 June 2007. The options to the remaining participants were not granted until 23 July 2007 and were as follows: TSR options - 12,024,249; RG options - 9,018,109; NGN options - 9,018,208; ITT options - 9,018,178; ROI options - 9,018,192; and ACC options - 21,042,445.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iii) Summary of movements and other information (continued)

	Number of equity instruments						
	Outstanding at 30 June 2005	Granted	Forfeited	Exercised (i)	Expired	Outstanding at 30 June 2006	Exercisable at 30 June 2006
Growthshare 2001 - Sept 2000 allocation							
Options	2,413,900	-	-	-	(2,413,900)	-	-
Restricted shares	500,600	-	-	-	(500,600)	-	-
Growthshare 2001 - March 2001 allocation							
Options	150,000	-	-	-	(150,000)	-	-
Restricted shares	40,000	-	-	-	(40,000)	-	-
Growthshare 2002 - Sept 2001 allocation							
Options	13,325,153	-	(888,153)	(2,000)	-	12,435,000	12,435,000
TSR performance rights	1,273,782	-	(5,500)	(1,241,282)	-	27,000	27,000
Growthshare 2002 - Mar 2002 allocation							
Options	1,602,000	-	-	-	(801,000)	801,000	-
TSR performance rights	136,000	-	-	-	(68,000)	68,000	-
Growthshare 2003 - Sept 2002 allocation							
Deferred shares	1,774,023	-	(41,292)	(1,516,003)	-	216,728	216,728
TSR performance rights	3,687,224	-	(180,281)	-	(1,747,720)	1,759,223	-
Growthshare 2003 - Mar 2003 allocation							
Deferred shares	18,600	-	(506)	(2,094)	-	16,000	-
TSR performance rights	37,200	-	(1,012)	-	-	36,188	-
Growthshare 2004 - Sept 2003 allocation							
Deferred shares	2,025,008	-	(94,713)	(500,054)	-	1,430,241	-
TSR performance rights	4,099,546	-	(272,118)	-	-	3,827,428	-
Growthshare 2004 - Feb 2004 allocation							
Deferred shares	18,350	-	-	-	-	18,350	-
TSR performance rights	36,700	-	-	-	-	36,700	-
Growthshare 2005 - Aug 2004 allocation							
TSR performance rights	2,424,714	-	(198,314)	-	-	2,226,400	-
EPS performance rights	2,424,714	-	(198,314)	-	-	2,226,400	-
Growthshare 2006 - Feb 2006 allocation							
TSR performance rights	-	571,943	(4,612)	-	-	567,331	-
OEG performance rights	-	1,143,886	(9,225)	-	-	1,134,661	-
RG performance rights	-	1,143,886	(9,225)	-	-	1,134,661	-
NT performance rights	-	857,914	(6,918)	-	-	850,996	-
ITT performance rights	-	857,914	(6,918)	-	-	850,996	-
ROI performance rights	-	1,143,886	(9,225)	-	-	1,134,661	-

(i) The weighted average share price for instruments exercised during fiscal 2006 was \$4.81 for the September 2001 allocation of options, \$4.69 for the September 2001 allocation of performance rights and \$4.43 for the September 2002, March 2003 and September 2003 allocation of deferred shares respectively. These share prices were based on the closing market price on those dates.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iii) Summary of movements and other information (continued)

	Commencement date	Performance hurdle period from	Performance hurdle period to	Exercise price	Expiry date
Growthshare 2002 - Sept 2001 allocation					
Options	6 Sept 2001	6 Sept 2004	6 Sept 2006	$4.90	6 Sept 2011
TSR performance rights	6 Sept 2001	6 Sept 2004	6 Sept 2006	$1 per parcel exercised	8 Dec 2006
Growthshare 2002 - Mar 2002 allocation					
Options	14 Mar 2002	14 Mar 2005	14 Mar 2007	$5.63	14 Mar 2012
TSR performance rights	14 Mar 2002	14 Mar 2005	14 Mar 2007	$1 per parcel exercised	14 Jun 2007
Growthshare 2003 - Sept 2002 allocation					
Deferred shares	5 Sept 2002	N/A		$1 per parcel exercised	5 Sept 2007
TSR performance rights	5 Sept 2002	5 Sept 2005	5 Sept 2007	$1 per parcel exercised	5 Dec 2007
Growthshare 2003 - Mar 2003 allocation					
Deferred shares	7 Mar 2003	N/A		$1 per parcel exercised	7 Mar 2008
TSR performance rights	7 Mar 2003	7 Mar 2006	7 Mar 2008	$1 per parcel exercised	7 Jun 2008
Growthshare 2004 - Sept 2003 allocation					
Deferred shares	5 Sept 2003	N/A		$1 per parcel exercised	5 Sept 2008
TSR performance rights	5 Sept 2003	5 Sept 2006	5 Sept 2008	$1 per parcel exercised	5 Dec 2008
Growthshare 2004 - Feb 2004 allocation					
Deferred shares	20 Feb 2004	N/A		$1 per parcel exercised	20 Feb 2009
TSR performance rights	20 Feb 2004	20 Feb 2007	20 Feb 2009	$1 per parcel exercised	20 May 2009
Growthshare 2005 - Aug 2004 allocation					
TSR performance rights	20 Aug 2004	20 Aug 2007	20 Aug 2009	$1 per parcel exercised	20 Nov 2009
EPS performance rights	20 Aug 2004	1 July 2004	30 Jun 2007	$1 per parcel exercised	20 Nov 2009
Growthshare 2006 - Feb 2006 allocation					
TSR performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
OEG performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
RG performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
NT performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
ITT performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
ROI performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2008	$1 per parcel exercised	19 Aug 2012
Growthshare 2007 - fiscal 2007 allocation					
TSR options	**31 Jan 2007**	**1 Jul 2006**	**30 Jun 2010**	**$3.67 (*)**	**1 Jul 2012**
RG options	**31 Jan 2007**	**1 Jul 2006**	**30 Jun 2010**	**$3.67 (*)**	**1 Jul 2012**
NGN options	**31 Jan 2007**	**1 Jul 2006**	**30 Jun 2010**	**$3.67 (*)**	**1 Jul 2012**
ITT options	**31 Jan 2007**	**1 Jul 2006**	**30 Jun 2010**	**$3.67 (*)**	**1 Jul 2012**
ROI options	**31 Jan 2007**	**1 Jul 2008**	**30 Jun 2010**	**$3.67 (*)**	**1 Jul 2012**
ACC options	**31 Jan 2007**	**1 Jul 2006**	**30 Jun 2010**	**$3.67 (*)**	**1 Jul 2012**

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.

(*) The exercise price was communicated to Telstra shareholders at the Annual General Meeting held on 14 November 2006 and is based on the five day volume weighted average share price after the release of our 2006 annual results on 10 August 2006.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iii) Summary of movements and other information (continued)

	Incentive shares (i)		Options (ii)		Restricted shares		Deferred shares		Performance rights (iii)	
	Number	Weighted average fair value (iv)	Number	Weighted average fair value (v)	Number	Weighted average fair value (v)	Number	Weighted average fair value (v)	Number	Weighted average fair value (v)
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	(53,467)	$4.77	(888,153)	$1.13	-	-	(136,511)	$4.32	(901,662)	$3.19
Exercised	(97,382)	$4.77	(2,000)	$1.13	-	-	(2,018,151)	$4.38	(1,241,282)	$2.86
Expired	-	-	(3,364,900)	$1.49	(540,600)	$3.63	-	-	(1,815,720)	$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	15,880,645	$3.12
Granted	**122,344**	**$4.77**	**46,065,524**	**$0.85**	**-**	**-**	**-**	**-**	**-**	**-**
Forfeited	**-**	**-**	**(599,000)**	**$1.13**	**-**	**-**	**(25,745)**	**$4.29**	**(1,479,277)**	**$3.05**
Exercised	**(423,455)**	**$4.77**	**-**	**-**	**-**	**-**	**(1,266,986)**	**$4.29**	**(21,800)**	**$2.86**
Expired	**-**	**-**	**(2,720,397)**	**$0.99**	**-**	**-**	**-**	**-**	**(1,463,273)**	**$3.06**
Equity instruments outstanding as at 30 June 2007	**1,534,475**	**$4.77**	**55,982,127**	**$0.91**	**-**	**-**	**388,588**	**$4.31**	**12,916,295**	**$3.13**
Equity instruments exercisable as at 30 June 2007	**138,964**	**$4.77**	**11,836,000**	**$1.13**	**-**	**-**	**388,588**	**$4.31**	**-**	**-**

(i) The incentive shares exercisable includes those executives that have been made redundant and are then consequently entitled to the incentive shares. The incentive shares outstanding and exercisable excludes those shares relating to the fiscal 2007 short term incentive plan that will be issued on 17 August 2007.

(ii) Options include TSR, RG, NGN, ITT, ROI and ACC options. The options outstanding and exercisable excludes those options relating to the fiscal 2007 long term incentive plan that were granted on 23 July 2007.

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

(iv) The fair value of incentive shares granted during fiscal 2006 was calculated using a Black-Scholes pricing model.

(v) The fair value of these instruments is calculated using an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free rate for the expected life of the instrument, and the expected average volatility of Telstra's peer group companies.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iv) Fair value of instruments granted during the financial year

Short term incentive equity share plans

As part of the fiscal 2007 short term incentive scheme, the incentive shares will be granted on 17 August 2007 and will vest immediately. The fair value of these incentive shares will be based on the market value of Telstra shares on that date.

Long term incentive equity share plans

The fair value of long term incentive instruments granted during the financial year was calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value has been measured at a grant date of 30 June 2007 and has been allocated over the period for which the service is received which commenced 31 January 2007. The following weighted average assumptions were used in determining the valuation:

	Growthshare options June 2007	Growthshare performance rights Feb 2006
Share price	**$4.59**	$3.87
Risk free rate	**6.41%**	5.20%
Dividend yield	**6.0%**	6.0%
Expected stock volatility	**19%**	19%
Expected life	**(a)**	(a)
Expected rate of achievement of TSR performance hurdles	**46%**	15%
Expected rate of achievement of RG, OEG, NGN, ITT, ROI, and ACC performance hurdles	**58%**	n/a

(a) The date the instruments become exercisable

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 gateway TSR hurdle must be met for all vested options to become exercisable for RG, NGN, ITT, ROI and ACC options, an adjustment for the expected achievement of the performance hurdles was made in the valuation of 58%. As there was no gateway TSR hurdle for the performance rights granted in fiscal 2006, the RG, OEG, NTT, ITT and ROI performance rights are not based on market conditions, and no adjustment for the expected achievement of the performance hurdles is made in the valuation.

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 towards 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 until the earlier of:

- five years from the date of allocation of the shares;
- the participating director is no longer a director of, or is no longer employed by, a company in the Telstra Group; or
- 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, at their election, be provided part of their remuneration in Telstra shares. 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 until the earlier of:

- three years or five years from the date of allocation (depending on the elections available to the participant at the time of allocation);
- the participant ceases employment with the Telstra Group; or
- 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.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

Telstra directshare and ownshare (continued)

(ii) Summary of movements

The table below provides information about our directshare and ownshare plans:

	Number of equity instruments						
Directshares	Outstanding at 30 June 2005	Granted (i)	Distributed (after restriction period) (ii)	Outstanding at 30 June 2006	Granted (i)	Distributed (after restriction period) (ii)	Outstanding at 30 June 2007
15 September 2000 allocation	4,364	-	(4,364)	-	**-**	**-**	**-**
19 March 2001 allocation	7,439	-	(7,439)	-	**-**	**-**	**-**
14 September 2001 allocation	9,463	-	(3,847)	5,616	**-**	**(5,616)**	**-**
14 March 2002 allocation	11,857	-	(3,509)	8,348	**-**	**(8,348)**	**-**
5 September 2002 allocation	12,937	-	(4,004)	8,933	**-**	**(1,335)**	**7,598**
7 March 2003 allocation	29,922	-	(6,043)	23,879	**-**	**(3,771)**	**20,108**
5 September 2003 allocation	23,132	-	(4,644)	18,488	**-**	**(2,964)**	**15,524**
20 February 2004 allocation	26,369	-	(4,989)	21,380	**-**	**(4,246)**	**17,134**
20 August 2005 allocation	7,567	-	(1,344)	6,223	**-**	**(1,143)**	**5,080**
19 February 2005 allocation	26,013	-	(4,877)	21,136	**-**	**(3,731)**	**17,405**
19 August 2005 allocation	-	20,699	-	20,699	**-**	**(4,183)**	**16,516**
17 February 2006 allocation	-	31,286	-	31,286	**-**	**(5,687)**	**25,599**
18 August 2006 allocation	-	-	-	-	**36,431**	**-**	**36,431**
23 February 2007 allocation	-	-	-	-	**38,209**	**-**	**38,209**
	159,063	51,985	(45,060)	165,988	**74,640**	**(41,024)**	**199,604**
Ownshares							
15 September 2000 allocation	49,928	-	(49,928)	-	**-**	**-**	**-**
14 September 2001 allocation	47,202	-	(14,807)	32,395	**-**	**(32,395)**	**-**
5 September 2002 allocation	471,135	-	(471,135)	-	**-**	**-**	**-**
28 October 2002 allocation	138,232	-	(138,232)	-	**-**	**-**	**-**
5 September 2003 allocation	333,587	-	(39,823)	293,764	**-**	**(293,764)**	**-**
31 October 2003 allocation	207,140	-	(41,208)	165,932	**-**	**(165,932)**	**-**
20 August 2004 allocation	318,074	-	(36,043)	282,031	**-**	**(25,659)**	**256,372**
29 October 2004 allocation	247,168	-	(53,084)	194,084	**-**	**(18,954)**	**175,130**
19 August 2005 allocation	-	506,420	(32,183)	474,237	**-**	**(54,775)**	**419,462**
28 October 2005 allocation	-	270,415	(25,164)	245,251	**-**	**(13,932)**	**231,319**
18 August 2006 allocation	-	-	-	-	**506,420**	**(113,176)**	**393,244**
27 October 2006 allocation	-	-	-	-	**182,926**	**(5,330)**	**177,596**
	1,812,466	776,835	(901,607)	1,687,694	**689,346**	**(723,917)**	**1,653,123**

(i) The number of directshares or ownshares granted is based on the weighted average price of a Telstra share in the week ending on the day before grant date, in conjunction with the remuneration foregone.

(ii) Directshares and ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period.

Notes to the Financial Statements (continued)

31. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

Telstra directshare and ownshare (continued)

(iii) Instruments granted during the financial year

The fair value of the instruments granted under the directshare and ownshare plans is determined by the remuneration foregone by the participant.

On the grant of directshares and ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The 18 August 2006 grant of ownshares relates to employees short term incentive payments and the 27 October 2006 grant relates to shares acquired through salary sacrifice by employees.

The weighted average fair value of fully paid shares granted to directors and executives under the directshare and ownshare plans as at 30 June 2007 was $4.08 (2006: $4.34) and $3.67 (2006: $4.57) respectively. The total fair value of shares granted as at 30 June 2007 was $304,878 (2006: $225,649) for the directshare and $2,531,729 (2006: $3,551,023) for the ownshare plan.

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
- 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 128,090 (2006: 67,694) sign-on bonus shares issued in fiscal 2007 to 3 (2006: 1) employees on 11 August 2006, 25 August 2006 and 5 December 2006 respectively (2006: 30 March 2006). The weighted average fair value of the shares allocated was $3.66 (2006: $3.69) with a total fair value allocated of $468,400 (2006: $249,791). 28,090 shares were still outstanding at 30 June 2007. 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 the allocation date.

(b) 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).

Although the Telstra ESOP Trustee Pty Ltd (wholly owned subsidiary of Telstra) is the trustee for TESOP99 and TESOP97 and holds the shares in the trust, the participating employee retains the beneficial interest in the shares (dividends and voting rights).

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 participant ceases to be employed by 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, the employee must repay their loan within two months of leaving to acquire the relevant shares. 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)

(b) TESOP99 and TESOP97 (continued)

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 2007, there were 7,268,200 shares held for this purpose (2006: 6,418,300).

The following table provides information about our TESOP99 and TESOP97 share plans:

	TESOP97			TESOP99		
	Number	Weighted average fair value (i)	Total fair value $m	Number	Weighted average fair value (i)	Total fair value $m
Equity instruments outstanding and exercisable as at 30 June 2005	45,842,625	$5.06	232	14,535,900	$5.06	74
Exercised	(5,126,000)	$3.96	(20)	(148,500)	$3.95	(1)
Equity instruments outstanding and exercisable as at 30 June 2006	40,716,625	$3.68	150	14,387,400	$3.68	53
Exercised	**(6,031,125)**	**$4.16**	**(25)**	**(199,800)**	**$4.18**	**(1)**
Equity instruments outstanding and exercisable as at 30 June 2007	**34,685,500**	**$4.59**	**159**	**14,187,600**	**$4.59**	**65**

(i) The fair value of these shares is based on the market value of Telstra shares at balance date and exercise date.

The employee share loan balance as at 30 June 2007 is $113 million (2006: $130 million). The weighted average loan still to be repaid for the TESOP97 equity instrument is $0.83 (2006: $1.04), and the TESOP99 equity instrument is $5.92 (2006: $6.13).

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 2007 and fiscal 2006, the Directors' of the Telstra Entity were:

Name	Position
Current Directors	
Donald G McGauchie	Chairman, Non Executive Director
Solomon D Trujillo	Chief Executive Officer, appointed 1 July 2005
Geoffrey Cousins	Non Executive Director, elected 14 November 2006
Belinda J Hutchinson	Non Executive Director
Catherine B Livingstone	Non Executive Director
Charles Macek	Non Executive Director
John W Stocker	Non Executive Director
Peter J Willcox	Non Executive Director, appointed 17 May 2006
John D 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
Anthony J Clark	Non Executive Director, retired 11 August 2005
John E Fletcher	Non Executive Director, resigned 30 June 2006

Senior executives

The senior executives that qualified as KMP for fiscal 2007 and fiscal 2006 were:

Name	Position
Current 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)

KMP aggregate compensation

During fiscal 2007 and fiscal 2006, the aggregate compensation provided to our KMP was:

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Short term employee benefits	**21,956,239**	21,841,244	**21,956,239**	21,841,244
Post employment benefits	**2,635,944**	1,920,670	**2,635,944**	1,920,670
Other long term benefits	**282,500**	245,279	**282,500**	245,279
Termination benefits	**484,757**	4,027,495	**484,757**	4,027,495
Share based payments	**12,002,388**	5,016,326	**12,002,388**	5,016,326
	37,361,828	33,051,014	**37,361,828**	33,051,014

We have taken advantage of the relief provided by Corporations Regulations 2M.6.04 and have transferred the detailed remuneration disclosures to the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

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.

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

KMP interests in shares of Telstra Entity

During fiscal 2007, 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 2006	Directshare allocation (a)	Equity instruments exercised	Shares acquired as part of T3 (b)	Shares acquired or disposed of by other means	Total shares held at 30 June 2007	Shares that are held nominally
	Number	Number	Number	Number	Number	Number	Number
Directors							
Donald G McGauchie	57,641	**23,891**	**-**	**30,800**		**112,332**	**80,159**
Solomon D Trujillo	-	**-**	**-**	**250,000**	**-**	**250,000**	**-**
Geoffrey Cousins	-	**1,747**	**-**	**-**	**-**	**1,747**	**1,747**
Belinda J Hutchinson	74,778	**8,655**	**-**	**155,000**		**238,433**	**197,857**
Catherine B Livingstone	55,838	**9,005**	**-**	**30,400**	**-**	**95,243**	**80,262**
Charles Macek	48,576	**9,706**	**-**	**120,000**	**-**	**178,282**	**176,728**
John W Stocker	117,031	**10,758**	**-**	**31,600**	**-**	**159,389**	**153,211**
Peter Willcox	10,000	**5,523**	**-**	**12,500**	**20,000**	**48,023**	**48,023**
John Zeglis	-	**5,355**	**-**	**-**	**16,500**	**21,855**	**5,355**
	363,864	**74,640**	**-**	**630,300**	**36,500**	**1,105,304**	**743,342**
Senior executives							
Bruce Akhurst	37,859	**-**	**108,722**	**10,000**	**(126,922)**	**29,659**	**24,779**
Kate McKenzie	-	**-**	**-**	**-**	**-**	**-**	**-**
David Moffatt	151,000	**-**	**95,222**	**121,600**	**-**	**367,822**	**3,100**
Deena Shiff	14,480	**-**	**-**	**-**	**-**	**14,480**	**8,800**
John Stanhope	57,740	**-**	**67,894**	**-**	**-**	**125,634**	**3,960**
David Thodey	13,262	**-**	**137,480**	**18,062**	**10,475**	**179,279**	**800**
Gregory Winn	-	**-**	**-**	**-**	**-**	**-**	**-**
	274,341	**-**	**409,318**	**149,662**	**(116,447)**	**716,874**	**41,439**
	638,205	**74,640**	**409,318**	**779,962**	**(79,947)**	**1,822,178**	**784,781**

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 2007 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) Shares acquired as part of T3 are the instalment receipts acquired as part of the sale of shares in our company by the Commonwealth (Telstra 3 Share Offer). Holders of instalment receipts have the right to receive dividends as declared and entitled to vote, by directing the trustee, Telstra Sale Company Limited, at a meeting of the company. Telstra instalment receipts are traded on the Australian Stock Exchange with the final instalment payable to the Commonwealth.

Notes to the Financial Statements (continued)

32. Key management personnel compensation (continued)

KMP interests in shares of Telstra Entity (continued)

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	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	-	(2,000)	48,576	48,576
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	-	9,801	771,145	656,740
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	-	57,740	3,960
David Thodey.	18,262	-	51,000	(56,000)	13,262	800
Gregory Winn.	-	-	-	-	-	-
	109,873	-	407,800	(243,332)	274,341	49,639
	819,232	51,985	407,800	(233,531)	1,045,486	706,379

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 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)

32. Key management personnel compensation (continued)

KMP interests in equity instruments of Telstra Entity

The following details the balances and changes in instruments issued for our KMP during fiscal 2007.

Instrument type director/senior executive	Total held at 30 June 2006 Number	Granted during the year Number	Exercised during the year Number	Other changes (a) Number	Total held at 30 June 2007 Number	Vested and exercisable at 30 June 2007 Number	Vested during the year Number
Performance rights							
Solomon D Trujillo	836,821	-	-	-	836,821	-	-
Bruce Akhurst	494,940	-	-	(68,400)	426,540	-	-
Kate McKenzie	91,576	-	-	-	91,576	-	-
David Moffatt	524,650	-	-	(76,100)	448,550	-	-
Deena Shiff	215,220	-	-	(22,500)	192,720	-	-
John Stanhope	372,866	-	-	(49,400)	323,466	-	-
David Thodey	453,268	-	-	(62,600)	390,668	-	-
Options							
Solomon D Trujillo	-	-	-	-	-	-	-
Bruce Akhurst	617,000	6,465,518	-	(269,397)	6,813,121	617,000	-
Kate McKenzie	-	1,939,656	-	(80,819)	1,858,837	-	-
David Moffatt	740,000	6,543,104	-	(272,629)	7,010,475	740,000	-
Deena Shiff	178,000	4,655,173	-	(193,966)	4,639,207	178,000	-
John Stanhope	241,000	4,551,725	-	(189,655)	4,603,070	241,000	-
David Thodey	534,000	6,000,000	-	(250,000)	6,284,000	534,000	-
Incentive shares							
Bruce Akhurst	120,967	-	(40,322)	7,588	88,233	-	40,322
Kate McKenzie	18,905	-	-	1,393	20,298	6,766	6,766
David Moffatt	57,365	-	(19,122)	2,817	41,060	-	19,122
Deena Shiff	68,188	-	-	5,023	73,211	24,403	24,403
John Stanhope	55,482	-	(18,494)	2,724	39,712	-	18,494
David Thodey	47,639	-	(15,880)	2,339	34,098	-	15,880
Deferred shares							
Bruce Akhurst	68,400	-	(68,400)	-	-	-	68,400
David Moffatt	76,100	-	(76,100)	-	-	-	76,100
Deena Shiff	22,500	-	-	-	22,500	22,500	22,500
John Stanhope	49,400	-	(49,400)	-	-	-	49,400
David Thodey	121,600	-	(121,600)	-	-	-	62,600
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)

32. Key management personnel compensation (continued)

KMP interests in equity instruments of Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP 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	522,200	149,750	(71,000)	(76,300)	524,650	-	-
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)

32. Key management personnel compensation (continued)

KMP interests in equity instruments of Telstra Entity (continued)

(a) During fiscal 2007, other changes for our performance rights 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 executives when the vested incentive shares are exercised.

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

Transactions involving our controlled entities

Interests in controlled entities are set out in note 29. Our transactions with our controlled entities recorded in the income statement and balance sheet are as follows:

		Telstra Group Year ended/As at 30 June		Telstra Entity Year ended/As at 30 June	
	Note	**2007 $m**	2006 $m	**2007 $m**	2006 $m
Income from controlled entities:					
Sale of goods and services (a)		**-**	-	**1,077**	1,092
Finance income (a)		**-**	-	**1**	3
Dividend revenue (b)	6	**-**	-	**186**	560
Expenses to controlled entities:					
Purchase of goods and services (a)		**-**	-	**356**	399
Finance costs (a)	7	**-**	-	**26**	20
Total amounts receivable at 30 June from:					
Current					
Controlled entities (a) (d)	11	**-**	-	**2,344**	2,267
Allowance for amounts owed by controlled entities (c)	11	**-**	-	**(2,022)**	(1,851)
		-	-	**322**	416
Non current					
Controlled entities (a)	11	**-**	-	**129**	60
Movement in allowance for amounts owed by controlled entities:					
Opening balance		**-**	-	**(1,851)**	(1,469)
Impairment loss	7	**-**	-	**(173)**	(382)
Reversal of impairment loss	7	**-**	-	**2**	-
Closing balance	11	**-**	-	**(2,022)**	(1,851)
Total amounts payable at 30 June to:					
Current					
Controlled entities - payables (a) (d)	17	**-**	-	**221**	197
Controlled entities - loans (e)	18	**-**	-	**874**	1,408
		-	-	**1,095**	1,605

(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.

Notes to the Financial Statements (continued)

33. Related party disclosures (continued)

Transactions involving our controlled entities (continued)

Details of our individual significant transactions involving our controlled entities during fiscal 2007 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 $642 million (2006: $647 million). As at 30 June 2007, the Telstra Entity recorded revenue received in advance amounting to $334 million (2006: $332 million) for the use of these trademarks;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to $261 million (2006: $218 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 $300 million (2006: $292 million) for access to ducts that store the national hybrid fibre coaxial (HFC) cable network.

(b) The Telstra Entity recorded dividend revenue during fiscal 2007 from Telstra Media Holdings Pty Ltd of $186 million. In 2006 the Telstra Entity recorded dividend revenue from Telstra International Limited of $360 million and Network Design and Construction Limited of $200 million.

(c) The profit before income tax expense of the Telstra Entity included an impairment loss of $173 million (2006: $382 million) relating to a movement in allowance for amounts owed by a controlled entity.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, with a tax funding arrangement currently in place. The amounts receivable or amounts payable to the Telstra Entity under this arrangement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. 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

On 24 November 2006, the Commonwealth of Australia sold 4,248,049,190 shares in Telstra Corporation Limited, which represented 34.2% of the total share capital. The Commonwealth's remaining 17.6% interest in Telstra was transferred to the Commonwealth Future Fund in February 2007. As such, the Commonwealth of Australia is no longer 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.

During fiscal 2006, we supplied telecommunications services to, and acquired other services from, the Commonwealth of Australia, its Departments of State, trading and other agencies. These transactions were made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There were no exclusive rights to supply any of these services.

During fiscal 2007, services provided to any one governmental department or agency or the combination of all of these services in total, did not represent a significant component of our operating revenues.

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	
		2007	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Income from jointly controlled and associated entities:					
Sale of goods and services (a)		**168**	177	**79**	83
Expenses to jointly controlled and associated entities:					
Purchase of goods and services (a)		**560**	510	**252**	245
Total amounts receivable at 30 June from:					
Current					
Jointly controlled and associated entities - trade receivables (a)		**26**	32	**7**	22
Non current					
Jointly controlled and associated entities - loans (b)	11	**221**	229	**183**	210
Allowance for amounts owed by jointly controlled and associated entities (b)	11	**(183)**	(215)	**(183)**	(210)
		38	14	**-**	-
Movement in allowance for amounts owed by jointly controlled and associated entities:					
Opening balance		**(215)**	(210)	**(210)**	(204)
Impairment loss	7(a)	**(1)**	(2)	**-**	-
Other		**6**	-	**-**	-
Foreign currency exchange differences		**27**	(3)	**27**	(6)
Closing balance		**(183)**	(215)	**(183)**	(210)
Total amounts payable at 30 June to:					
Current					
Jointly controlled and associated entities - payables (a)		**32**	62	**22**	59

(a) We sold and purchased goods and services, and received interest from our jointly controlled and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of our individual significant transactions involving our jointly controlled and associated entities during fiscal 2007 are detailed as follows:

- we purchased pay television services amounting to $285 million (2006: $250 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 to FOXTEL for our cost recoveries of $76 million (2006: $77 million);
- purchases were made by the Telstra Group of $182 million (2006: $198 million) and Telstra Entity of $162 million (2006: $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; and
- sales to Reach were made for international inbound call termination services, construction and consultancy by the Telstra Group of $73 million (2006: $61 million) and the Telstra Entity of $59 million (2006: $52 million).

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 of $183 million (2006: $210 million) and the 3GIS Partnership (3GIS) of $38 million (2006: $14 million).

The loan provided to Reach is an interest free loan and repayable on or after 31 December 2010 upon the giving of six months notice by both PCCW Limited (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.

The loan provided to 3GIS represents interest free funding for operational expenditure purposes. In accordance with the partnership agreement, the loan is repayable on dissolution of the partnership and so is at call.

Transactions involving other related entities

Post-employment benefits

As at 30 June 2007, Telstra Superannuation Scheme (Telstra Super) owned 13,856,060 shares in Telstra Corporation Limited (2006: 12,881,343) at a cost of $46 million (2006: $56 million) and a market value of $54 million (2006: $47 million). 6,296,510 of these shares (2006: nil) related to instalment receipts and were not fully paid at 30 June 2007. In fiscal 2007, we paid dividends to Telstra Super of $4 million (2006: $4 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also holds bonds issued by Telstra Corporation Limited. As at 30 June 2007, Telstra Super holds bonds with a cost of $6 million (2006: $9 million) and a market value of $6 million (2006: $9 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)

For details regarding our KMP's remuneration and interests in Telstra, as well as other related party transactions, refer to note 32.

34. 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), credit risk, operational risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance. Financial 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.

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 interest bearing financial assets and financial liabilities, (including derivative financial instruments) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

During 2007, our strategy was to maintain the net debt gearing ratio within 55 to 75 percent (2006: 55 to 75 per cent), in order to secure access to finance at a reasonable cost.

We manage our risks with a view to the outcomes of both our financial results and the underlying economic position.

Section (a) of this note provides a summary of our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial assets and financial liabilities. Our gearing ratios and net interest on borrowings are also provided.

Section (b) addresses in more detail the key financial risk factors that arise from our activities, including our policies for managing these risks.

Section (c) provides details of our derivative financial instruments and hedges that are used for financial risk management.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(a) Financial assets, financial liabilities and gearing

The carrying amounts, fair values and face values of our financial assets and financial liabilities are shown in Table A and Table B below:

Table A — Telstra Group

	As at 30 June 2007			As at 30 June 2006		
	Carrying amount $m	Fair value $m	Face value $m	Carrying amount $m	Fair value $m	Face value $m
Financial assets - current						
Cash at bank and on hand *	241	241	241	238	238	238
Bills of exchange and commercial paper *	582	582	584	451	451	453
Trade receivables	2,756	2,756	2,917	2,561	2,561	2,714
Accrued revenue	966	966	966	1,027	1,027	1,027
Other receivables	92	92	92	113	113	113
Finance lease receivable *	46	46	46	20	20	20
Bank deposits with maturity greater than 90 days *	31	31	31	-	-	-
Cross currency swap hedge receivable *	38	38	38	20	20	16
Forward contract asset *	3	3	3	1	1	2
	4,755	4,755	4,918	4,431	4,431	4,583
Financial assets - non current						
Trade and other receivables	62	62	62	73	73	78
Amounts owed by jointly controlled and associated entities	38	38	221	14	14	229
Finance lease receivable*	90	90	90	59	59	59
Cross currency swap hedge receivable *	25	25	37	222	222	255
Interest rate swap asset *	224	224	-	169	169	-
	439	439	410	537	537	621
	5,194	5,194	5,328	4,968	4,968	5,204
Financial liabilities - current						
Trade and other creditors	1,145	1,145	1,145	975	975	975
Accrued interest and other accrued expenses	3,052	3,052	3,052	2,472	2,472	2,472
Deferred consideration for capital expenditure	10	10	10	123	123	123
Promissory notes *	1,435	1,442	1,456	1,457	1,481	1,490
Bank loans *	-	-	-	111	111	111
Offshore loans *	1,273	1,275	1,272	394	396	392
Finance leases *	35	35	35	20	20	20
Cross currency swap hedge payable *	165	165	169	6	6	6
Interest rate swap payable *	3	3	-	-	-	-
Forward contract liability *	9	9	10	6	6	7
	7,127	7,136	7,149	5,564	5,590	5,596
Financial liabilities - non current						
Other creditors	61	61	61	70	70	70
Deferred consideration for capital expenditure	134	134	293	127	127	287
Telstra bonds and domestic loans *	2,991	2,968	3,024	2,613	2,658	2,649
Offshore loans *	8,545	8,552	8,699	8,748	8,940	8,730
Finance leases *	83	83	83	81	81	81
Cross currency hedge payable *	1,051	1,051	982	612	612	548
Interest rate swap payable *	277	277	-	156	156	-
	13,142	13,126	13,142	12,407	12,644	12,365
	20,269	20,262	20,291	17,971	18,234	17,961

(*) Included in the calculation of net debt. Refer to Table C.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(a) Financial assets, financial liabilities and gearing (continued)

Table B — Telstra Entity

	As at 30 June 2007			As at 30 June 2006		
	Carrying amount $m	Fair value $m	Face value $m	Carrying amount $m	Fair value $m	Face value $m
Financial assets - current						
Cash at bank and on hand *	**94**	**94**	**94**	87	87	87
Bills of exchange and commercial paper *	**452**	**452**	**454**	387	387	389
Trade receivables	**2,107**	**2,107**	**2,233**	1,911	1,911	2,030
Accrued revenue	**912**	**912**	**912**	971	971	971
Amounts owed by controlled entities	**322**	**322**	**2,344**	416	416	2,267
Other receivables	**42**	**42**	**42**	46	46	46
Finance lease receivable *	**46**	**46**	**46**	20	20	20
Cross currency swap hedge receivable *	**38**	**38**	**38**	20	20	16
Forward contract asset *	**3**	**3**	**3**	1	1	2
	4,016	**4,016**	**6,166**	3,859	3,859	5,828
Financial assets - non current						
Trade and other receivables	**54**	**54**	**54**	67	67	72
Amounts owed by controlled entities	**129**	**129**	**129**	60	60	60
Amounts owed by jointly controlled and associated entities	**-**	**-**	**183**	-	-	210
Finance lease receivable *	**90**	**90**	**90**	59	59	59
Cross currency swap hedge receivable *	**25**	**25**	**37**	222	222	255
Interest rate swap asset *	**224**	**224**	**-**	169	169	-
	522	**522**	**493**	577	577	656
	4,538	**4,538**	**6,659**	4,436	4,436	6,484
Financial liabilities - current						
Trade and other creditors	**928**	**928**	**928**	726	726	726
Accrued interest and other accrued expenses	**2,708**	**2,708**	**2,708**	2,142	2,142	2,142
Amounts owed to controlled entities	**221**	**221**	**221**	197	197	197
Loans from wholly owned controlled entities - non interest bearing	**494**	**494**	**494**	986	986	986
Loans from wholly owned controlled entities - interest bearing*	**380**	**380**	**380**	422	422	422
Promissory notes *	**1,435**	**1,442**	**1,456**	1,457	1,481	1,490
Bank loans *	**-**	**-**	**-**	110	110	110
Offshore loans *	**1,273**	**1,275**	**1,272**	394	396	392
Finance leases *	**34**	**34**	**34**	18	18	18
Cross currency swap hedge payable *	**165**	**165**	**169**	6	6	6
Interest rate swap payable *	**3**	**3**	**-**	-	-	-
Forward contract liability *	**9**	**9**	**10**	6	6	7
	7,650	**7,659**	**7,672**	6,464	6,490	6,496
Financial liabilities - non current						
Other creditors	**58**	**58**	**58**	65	65	65
Telstra bonds and domestic loans *	**2,991**	**2,968**	**3,024**	2,613	2,658	2,649
Offshore loans *	**8,545**	**8,552**	**8,699**	8,748	8,940	8,730
Finance leases *	**54**	**54**	**54**	48	48	48
Cross currency hedge payable *	**1,051**	**1,051**	**982**	612	612	548
Interest rate swap payable *	**277**	**277**	**-**	156	156	-
	12,976	**12,960**	**12,817**	12,242	12,479	12,040
	20,626	**20,619**	**20,489**	18,706	18,969	18,536

(*) Included in the calculation of net debt. Refer to Table C.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(a) Financial assets, financial liabilities and gearing (continued)

The gearing ratios were as follows:

Table C	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007 $m	2006 $m	2007 $m	2006 $m
Net debt	14,587	13,024	15,245	13,625
Total equity	12,580	12,834	12,153	12,117
Total capital	27,167	25,858	27,398	25,742
Gearing ratio	53.7%	50.4%	55.6%	52.9%

The net interest expense was as follows:

Table D	Note	Telstra Group 2007 $m	Telstra Group 2006 $m	Telstra Entity 2007 $m	Telstra Entity 2006 $m
Finance income	6	(57)	(74)	(47)	(71)
Interest on borrowings	7	1,064	974	1,086	990
Net interest on borrowings		1,007	900	1,039	919

The effective yield (effective interest rate) on our net debt at 30 June 2007 was 7.17% (2006: 6.98%) for the Telstra Group and 7.21% (2006: 6.94%) for the Telstra Entity.

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.

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.

Offshore loans comprise debt raised overseas. 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. Refer to note 2.14 for further information.

The carrying amount of offshore loans are denominated in the following currencies:

Table E	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007 $m	2006 $m	2007 $m	2006 $m
Australian dollar	493	245	493	245
Euro	7,018	6,336	7,018	6,336
United States dollar	906	1,028	906	1,028
United Kingdom pound	471	487	471	487
Japanese yen	387	472	387	472
New Zealand dollar	181	164	181	164
Swiss francs	285	326	285	326
Singapore dollar	77	84	77	84
	9,818	9,142	9,818	9,142

(b) Risks and mitigation

The risks associated with our main financial instruments and our policies for minimising these risks are detailed below.

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)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

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 by adjusting 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 section (c) of this note provides further information.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

The exposure to interest rate changes and the contractual repricing timeframes on our floating rate financial instruments, which do not have offsetting risk positions, are shown in Table F below. Floating rate derivative instruments which do not have offsetting risk positions comprise cross currency swaps used to hedge our net foreign investments, floating Australian dollar (AUD) payable legs on our cross currency and interest rate swaps used to hedge our borrowings. The amounts presented in Table F represent the notional / principal amounts on which interest is calculated.

Table F	Contractual repricing dates Notional / Principal amounts 6 months or less				Contractual repricing dates Notional / Principal amounts within 6 to 12 months			
	Telstra Group		Telstra Entity		Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Floating rate instruments								
Financial assets								
Cash at bank	**188**	181	**40**	32	**-**	-	**-**	-
Promissory notes	**582**	451	**452**	387	**-**	-	**-**	-
Cross currency swaps	**53**	-	**53**	-	**-**	-	**-**	-
Financial liabilities								
Promissory notes	**1,435**	1,457	**1,435**	1,457	**-**	-	**-**	-
Interest rate swaps	**310**	450	**310**	450	**610**	-	**610**	-
Cross currency swaps	**4,552**	4,735	**4,552**	4,735	**-**	-	**-**	-
Bank loans	**-**	111	**-**	110	**-**	-	**-**	-

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

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 G and Table H 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 finance leases, bank deposits and foreign borrowings / cross currency swaps used to hedge our net foreign investments, only the Australian interest rate positions are included in the table below.

Table G	Telstra Group					
	As at 30 June 2007			As at 30 June 2006		
		Interest rate range			Interest rate range	
	Average (a)	From	To	Average (a)	From	To
	%	%	%	%	%	%
Australian dollar interest rates						
Fixed rate instruments						
Financial assets						
Finance lease receivable	**8.12**	**4.34**	**11.43**	8.12	4.34	11.43
Financial liabilities						
Interest rate swaps	**6.33**	**5.60**	**7.01**	6.47	5.60	7.66
Cross currency swaps	**6.69**	**6.25**	**7.05**	6.69	6.25	7.05
Telstra bonds and domestic loans	**7.21**	**6.48**	**12.60**	7.21	6.48	12.60
Finance lease liabilities	**8.28**	**4.34**	**11.43**	7.43	7.56	8.50
Deferred cash settlements	**12.00**	**12.00**	**12.00**	12.40	12.00	12.90
Floating rate instruments						
Financial assets						
Cash and cash equivalents (c)	**6.22**	**4.75**	**6.37**	5.76	5.12	5.93
Cross currency swaps	**6.36**	**6.36**	**6.36**	5.89	5.89	5.89
Financial liabilities						
Promissory notes	**6.48**	**6.43**	**6.51**	5.68	5.65	5.73
Interest rate swaps	**6.95**	**6.24**	**7.66**	6.21	5.34	7.71
Cross currency swaps	**7.27**	**6.44**	**7.90**	6.67	5.88	7.49
Bank loans	**-**	**-**	**-**	5.82	5.80	5.85
Foreign currency interest rates						
Fixed rate instruments						
Financial liabilities						
Finance lease liabilities	**11.25**	**11.25**	**11.25**	10.50	10.50	10.50
Bank deposits greater than 90 days	**2.40**	**1.62**	**2.52**	-	-	-
Offshore loans (b)	**7.11**	**7.03**	**7.19**	7.11	7.03	7.19
Floating rate instruments						
Financial liabilities						
Promissory notes (b)	**6.00**	**4.15**	**8.49**	7.48	7.44	7.54
Cross currency swaps - Hong Kong dollar (b)	**4.51**	**4.50**	**4.51**	4.61	4.60	4.62
Financial assets						
Cash at bank and cash equivalents (c)	**4.74**	**0.20**	**8.00**	4.60	0.16	7.25

(a) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate.

(b) Used to hedged our net foreign investments.

(c) Rate on cash at bank balances represents average rate earned on net positive cash balances after taking into account bank set-off arrangements.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

Table H — Telstra Entity

	As at 30 June 2007			As at 30 June 2006		
		Interest rate range			Interest rate range	
	Average (a)	From	To	Average (a)	From	To
	%	%	%	%	%	%
Australian dollar interest rates						
Fixed rate instruments						
Financial assets						
Finance lease receivable	**8.12**	**4.34**	**11.43**	8.12	4.34	11.43
Financial liabilities						
Interest rate swaps	**6.33**	**5.60**	**7.01**	6.47	5.60	7.66
Cross currency swaps	**6.69**	**6.25**	**7.05**	6.69	6.25	7.05
Telstra bonds and domestic loans	**7.21**	**6.48**	**12.60**	7.21	6.48	12.60
Finance lease liabilities	**8.28**	**4.34**	**11.43**	7.56	7.56	7.56
Floating rate instruments						
Financial assets						
Cash and cash equivalents (c)	**6.30**	**5.48**	**6.37**	5.81	5.12	5.93
Cross currency swaps	**6.36**	**6.36**	**6.36**	5.89	5.89	5.89
Financial liabilities						
Loans from wholly owned controlled entities - interest bearing	**6.09**	**5.70**	**6.37**	5.52	5.45	5.80
Promissory notes	**6.48**	**6.43**	**6.51**	5.68	5.65	5.73
Interest rate swaps	**6.95**	**6.24**	**7.66**	6.21	5.34	7.71
Cross currency swaps	**7.27**	**6.44**	**7.90**	6.67	5.88	7.49
Bank loans	**-**	**-**	**-**	5.82	5.80	5.85
Foreign currency interest rates						
Fixed rate instruments						
Financial liabilities						
Offshore loans (b)	**7.11**	**7.03**	**7.19**	7.11	7.03	7.19
Floating rate instruments						
Financial liabilities						
Loans from wholly owned controlled entities - interest bearing	**6.28**	**4.63**	**7.95**	5.46	3.28	7.20
Promissory notes (b)	**6.00**	**4.15**	**8.49**	7.48	7.44	7.54
Cross currency swaps - Hong Kong dollar (b)	**4.51**	**4.50**	**4.51**	4.61	4.60	4.62

(a) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate.

(b) Used to hedge our net foreign investments.

(c) Rate on cash at bank balances represents average rate earned on net positive cash balances after taking into account bank set-off arrangements.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

Table I and Table J show the effect on profit and equity after tax 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 are assumed.

Also included in Table I and Table J 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 at 30 June 2007 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.

Based on the sensitivity analysis, if interest rates were 10% higher, finance costs would be impacted by 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 partially offset each other as the ineffective component results in a gain and the increase in finance costs results in an increase in expense.

Table I

	Telstra Group					
	Finance costs		Net profit		Equity (Cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m
If interest rates were 10 per cent higher with all other variables held constant - increase/(decrease)	**20**	8	**(20)**	(8)	**71**	29
If interest rates were 10 per cent lower with all other variables held constant - increase/(decrease)	**(20)**	(8)	**20**	8	**(76)**	(29)

Table J

	Telstra Entity					
	Finance costs		Net profit		Equity (Cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m
If interest rates were 10 per cent higher with all other variables held constant - increase/(decrease)	**20**	8	**(20)**	(8)	**71**	29
If interest rates were 10 per cent lower with all other variables held constant - increase/(decrease)	**(20)**	(8)	**20**	8	**(76)**	(29)

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Market risk (continued)

(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;
- Chinese renminbi;
- Japanese yen;
- Swedish krona; and
- Singapore dollar.

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 and asset purchases settled in foreign currencies) in each currency in accordance with our risk management policy.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Market risk (continued)

(ii) Foreign currency risk (continued)

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 section (c) 'Derivative financial instruments and hedging activities' contained in this note.

Sensitivity analysis

The following Table K shows the effect on profit and equity after tax as at 30 June 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. Comparing the Australian dollar exchange rate against the United States dollar, the year end rate of 0.84885 would generate a 10 per cent adverse position of 0.93374 and a favourable position of 0.77168. 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 0.8522 to 0.5263.

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 translation of the net assets of our foreign controlled entities including the impact of hedging. We hedge our net investments in TelstraClear Limited and Hong Kong CSL Limited in New Zealand dollars and Hong Kong dollars respectively, where the amount hedged is in the range of 40% to 50%. The net loss of $235 million (2006: $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 $75 million (2006: $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 and hence there is no impact on profit for the Telstra Group.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity analysis (continued)

Table K	Telstra Group				Telstra Entity			
	Equity (foreign currency translation reserve)		Equity (cash flow hedging reserve)		Net profit		Equity (cash flow hedging reserve)	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2007 $m	2006 $m	**2007 $m**	2006 $m	**2007 $m**	2006 $m	**2007 $m**	2006 $m
If there was a 10% adverse movement in exchange rates with all other variables held constant - increase/(decrease)	**(235)**	(211)	**38**	43	**75**	78	**38**	41
If there was a 10% favourable movement in exchange rates with all other variables held constant - increase/(decrease)	**288**	211	**(32)**	(43)	**(92)**	(78)	**(32)**	(41)

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).

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. We do not have any significant credit risk exposure to a single customer or groups of customers. Ongoing credit evaluation is performed on the financial condition of our customers and, where appropriate, a allowance for doubtful debtors is raised. For further details regarding our trade and other receivables refer to note 11.

The Telstra Group and the Telstra Entity are also exposed to credit risk arising 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 money market instruments, forward foreign currency contracts, cross currency and interest rate swaps outstanding at balance date (which includes a time based volatility allowance (VAR)) by country of financial institution is included in Table L and Table M below.

Table L	Telstra Group			
	Credit risk concentrations (VAR based)			
	As at 30 June 2007		As at 30 June 2006	
	%	**$m**	%	$m
Australia	**36.1**	**2,239**	35.5	2,086
United States	**23.1**	**1,432**	31.9	1,876
Japan	**2.6**	**160**	3.8	223
Europe	**19.9**	**1,231**	13.7	807
United Kingdom	**7.9**	**487**	4.3	254
Canada	**1.7**	**106**	2.3	133
Switzerland	**5.3**	**328**	6.9	409
Hong Kong	**2.9**	**181**	1.1	67
New Zealand	**0.5**	**30**	0.5	28
	100.0	**6,194**	100.0	5,883

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Credit risk (continued)

Table M	Telstra Entity			
	Credit risk concentrations (VAR based)			
	As at 30 June 2007		As at 30 June 2006	
	%	$m	%	$m
Australia	36.9	2,181	35.5	2,017
United States	24.1	1,421	32.7	1,860
Japan	2.7	159	3.9	223
Europe	20.9	1,231	14.2	807
United Kingdom	8.0	470	4.0	229
Canada	1.8	106	2.3	133
Switzerland	5.6	328	7.2	409
New Zealand	-	-	0.2	9
	100.0	5,896	100.0	5,687

Our maximum exposure to credit risk is based on the recorded amounts of our financial assets, net of any applicable provisions for loss, as shown in Table A and Table B. 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 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 are disclosed in note 27.

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)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Liquidity risk (continued)

The contractual maturity of our fixed and floating rate financial liabilities and derivatives are shown in Table N and Table O below. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the values shown in Table A and Table B.

Table N — Telstra Group

	As at 30 June 2007 Contractual maturity (nominal cash flows)				As at 30 June 2006 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)	-	-	-	(1)	(17)	(13)	(16)	(17)
Interest rate swaps - pay variable (i)	(38)	(41)	(90)	(59)	(4)	(19)	(56)	(27)
Cross currency swaps - foreign leg (variable) (ii)	(324)	(340)	-	-	(364)	(176)	-	-
Cross currency swaps - AUD leg (fixed) (ii)	(18)	(18)	(159)	(193)	(18)	(18)	(54)	(316)
Cross currency swaps - AUD leg (variable) (ii)	(1,947)	(812)	(6,061)	(5,676)	(972)	(1,786)	(4,930)	(4,602)
Forward foreign currency contracts (ii)	(910)	-	-	-	(779)	-	-	-
Derivative financial assets								
Interest rate swaps - receive fixed (i)	17	9	14	38	61	39	97	56
Interest rate swaps - receive variable (i)	17	34	99	9	1	2	7	-
Cross currency swaps - foreign leg (fixed) (ii)	16	83	97	443	68	1,087	172	569
Cross currency swaps - foreign leg (variable) (ii)	1,483	429	4,889	4,655	712	435	4,407	3,766
Cross currency swaps - AUD leg (variable) (ii)	373	359	-	-	362	173	-	-
Forward foreign currency contracts (ii)	902	-	-	-	773	-	-	-
Non derivative financial liabilities								
Telstra bonds and domestic loans	(191)	(674)	(900)	(2,028)	(184)	(184)	(1,428)	(2,014)
Bank loans	-	-	-	-	(111)	-	-	-
Offshore loans	(1,792)	(531)	(5,400)	(5,550)	(866)	(1,813)	(4,656)	(4,553)
Finance leases	(44)	(32)	(44)	(47)	(13)	(12)	(23)	(52)
Promissory notes	(1,456)	-	-	-	(1,490)	-	-	-
Deferred consideration for capital expenditure	(10)	(12)	(48)	(233)	(123)	(11)	(45)	(231)
Non derivative financial assets								
Bank deposits with maturity greater than 90 days	31	-	-	-	-	-	-	-
Bills of exchange and commercial paper	584	-	-	-	453	-	-	-

(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.

(iv) Also affecting liquidity are cash at bank and non interest bearing receivables and payables. Liquidity risk associated with these financial instruments is represented by the carrying amounts as shown in Table A.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(b) Risks and mitigation (continued)

Liquidity risk (continued)

Table O — **Telstra Entity**

	As at 30 June 2007				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)	-	-	-	(1)	(17)	(13)	(16)	(17)
Interest rate swaps - pay variable (i)	(38)	(41)	(90)	(59)	(4)	(19)	(56)	(27)
Cross currency swaps - foreign leg (variable) (ii)	(324)	(340)	-	-	(364)	(176)	-	-
Cross currency swaps - AUD leg (fixed) (ii)	(18)	(18)	(159)	(193)	(18)	(18)	(54)	(316)
Cross currency swaps - AUD leg (variable) (ii)	(1,947)	(812)	(6,061)	(5,676)	(972)	(1,786)	(4,930)	(4,602)
Forward foreign currency contracts (ii)	(910)	-	-	-	(779)	-	-	-
Derivative financial assets								
Interest rate swaps - receive fixed (i)	17	9	14	38	61	39	97	56
Interest rate swaps - receive variable (i)	17	34	99	9	1	2	7	-
Cross currency swaps - foreign leg (fixed) (ii)	16	83	97	443	68	1,087	172	569
Cross currency swaps - foreign leg (variable) (ii)	1,483	429	4,889	4,655	712	435	4,407	3,766
Cross currency swaps - AUD leg (variable) (ii)	373	359	-	-	362	173	-	-
Forward foreign currency contracts (ii)	902	-	-	-	773	-	-	-
Non derivative financial liabilities								
Telstra bonds and domestic loans	(191)	(674)	(900)	(2,028)	(184)	(184)	(1,428)	(2,014)
Bank loans	-	-	-	-	(110)	-	-	-
Offshore loans	(1,792)	(531)	(5,400)	(5,550)	(866)	(1,813)	(4,656)	(4,553)
Finance leases	(40)	(28)	(30)	-	(7)	(6)	(10)	-
Promissory notes	(1,456)	-	-	-	(1,490)	-	-	-
Non derivative financial assets								
Bills of exchange and commercial paper	454	-	-	-	389	-	-	-

(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.

(iv) Also affecting liquidity are cash at bank, non interest bearing receivables, payables and loans from controlled entities with no contractual maturity. Liquidity risk associated with these financial instruments is represented by the carrying amounts as shown in Table B.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(c) 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.

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 fiscal 2006 we discontinued hedge accounting for our British pound borrowing in a fair value hedge. There was no material impact on our income statement during the current or prior year. All other hedging relationships were effective at the reporting date.

For further details reference should be made to note 2.22.

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 instruments 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. For the Telstra Group and the Telstra Entity the remeasurement of the hedged items resulted in a gain before tax of $436 million (2006: loss of $3 million) and the changes in the fair value of the hedging instruments resulted in a loss before tax of $444 million (2006: gain of $29 million) resulting in a net loss before tax of $9 million (2006: gain of $26 million) recorded in ‘finance costs’.

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 Q and Table R for the value of our derivatives designated as fair value hedges.

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)

34. Financial and capital risk management (continued)

(c) Derivative financial instruments and hedging activities (continued)

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 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, fixed assets), 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 2007, net losses after tax of $386 million for the Telstra Group (2006: after tax gain of $229 million) and $386 million for the Telstra Entity (2006: after tax gain of $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 losses after tax of $409 million for the Telstra Group (2006: after tax gain of $294 million) and $406 million for the Telstra Entity (2006: after tax gain of $295 million) recognised in the cash flow hedging reserve were transferred to the income statement or to property, plant and equipment during the year.

Refer to Table Q, Table R and Table S for the value of our derivatives designated as cash flow hedges.

The following table shows the maturities of the payments, that is when the cash flows are expected to occur.

Table P	Nominal cash outflows			
	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Highly probable forecast purchases (i)				
- less than one year . . .	**-**	(757)	**-**	(734)
Borrowings (ii)				
- less than one year	**(881)**	(431)	**(881)**	(431)
- one to five years	**(3,101)**	(2,924)	**(3,101)**	(2,924)
- greater than five years .	**(3,623)**	(1,978)	**(3,623)**	(1,978)
	(7,605)	(5,333)	**(7,605)**	(5,333)

(i) These amounts will affect our income statement in the same 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. As at 30 June 2007 all our hedges of forecast purchases had matured or were closed out.

(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.

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)

34. Financial and capital risk management (continued)

(c) Derivative financial instruments and hedging activities (continued)

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 after tax of $30 million (2006: $35 million) on our hedging instruments were taken directly to equity in the foreign currency translation reserve in the consolidated balance sheet.

Refer to Table Q and Table S for the value of our derivatives designated as hedges of net foreign investments.

In addition, included in the carrying value of 'other loans' and 'bills of exchange and commercial paper' at 30 June 2007 are New Zealand dollar denominated borrowings of $181 million (2006: $164 million) and New Zealand dollar denominated commercial paper of $368 million (2006: $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. A foreign exchange loss after tax of $36 million (2006: gain of $41 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.

Derivative hedging instruments

Details of our derivative hedging instruments as at balance date are shown in Table Q, Table R and Table S 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 Q	Telstra Group				Telstra Entity			
	Assets		Liabilities		Assets		Liabilities	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Cross currency swaps								
Current								
Cross currency swaps - designated cash flow hedges of offshore loans (i)	**-**	11	**91**	-	**-**	11	**91**	-
Cross currency swaps - designated fair value hedges of offshore loans	**-**	9	**74**	-	**-**	9	**74**	-
Cross currency swaps - designated hedge of net foreign investment	**38**	-	**-**	6	**38**	-	**-**	6
	38	20	**165**	6	**38**	20	**165**	6
Non current								
Cross currency swaps - designated cash flow hedges of offshore loans (i)	**-**	53	**654**	350	**-**	53	**654**	350
Cross currency swaps - designated fair value hedges of offshore loans	**10**	169	**397**	259	**10**	169	**397**	259
Cross currency swaps - designated hedge of net foreign investment	**15**	-	**-**	3	**15**	-	**-**	3
	25	222	**1,051**	612	**25**	222	**1,051**	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 2007 will be continuously released to the income statement until the underlying borrowings are repaid.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(c) Derivative financial instruments and hedging activities (continued)

Derivative hedging instruments (continued)

Table R	Telstra Group				Telstra Entity			
	Assets		Liabilities		Assets		Liabilities	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Interest rate swaps								
Current								
Interest rate swaps - designated cash flow hedges of offshore loans (i)	**-**	-	**2**	-	**-**	-	**2**	-
Interest rate swaps - designated fair value hedges of offshore loans	**-**	-	**1**	-	**-**	-	**1**	-
	-	-	**3**	-	**-**	-	**3**	-
Non current								
Interest rate swaps - designated cash flow hedges of offshore loans (i)	**202**	106	**134**	107	**202**	106	**134**	107
Interest rate swaps - designated fair value hedges of offshore loans	**22**	63	**143**	49	**22**	63	**143**	49
	224	169	**277**	156	**224**	169	**277**	156

(i) 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 2007 will be continuously released to the income statement until the underlying borrowings are repaid.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(c) Derivative financial instruments and hedging activities (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 S	Telstra Group				Telstra Entity			
	Assets		Liabilities		Assets		Liabilities	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Forward foreign currency contracts								
United States (US) dollars - fair value hedges								
- less than 3 months, at contractual forward exchange rates averaging United States dollars 0.83386 (2006: nil).	**-**	-	**6**	-	**-**	-	**6**	-
United States (US) dollars - cash flow hedges (i)								
- less than 3 months, at contractual forward exchange rates averaging United States dollars nil (2006: 0.7328) .	**-**	-	**-**	2	**-**	-	**-**	2
- 3 to 12 months, at contractual forward exchange rates averaging United States dollars nil (2006: 0.7347)	**-**	-	**-**	2	**-**	-	**-**	2
United States (US) dollars - (ii)								
- 3 to 12 months, at contractual forward exchange rates averaging United States dollars 0.82865 (2006: nil)	**-**	-	**1**	-	**-**	-	**1**	-
Euro - fair value hedges								
- less than 3 months, at contractual forward exchange rates averaging Euro 0.62716 (2006: nil)	**-**	-	**1**	-	**-**	-	**1**	-
New Zealand (NZ) dollars - hedge of net foreign investment								
- 3 to 12 months, at contractual forward exchange rates averaging New Zealand dollars nil (2006: 1.1946)	**-**	-	**-**	2	**-**	-	**-**	2
New Zealand (NZ) dollars (ii)								
- 3 to 12 months, at contractual forward exchange rates averaging New Zealand dollars 1.13354 (2006: nil)	**3**	-	**-**	-	**3**	-	**-**	-
Hong Kong (HK) dollars - hedge of net foreign investment								
- 3 to 12 months, at contractual forward exchange rates averaging Hong Kong dollars nil (2006: 5.7248).	**-**	1	**-**	-	**-**	1	**-**	-
British pounds sterling (ii)								
- 3 to 12 months, at contractual forward exchange rates averaging British pounds sterling 0.41592 (2006: nil) . . .	**-**	-	**1**	-	**-**	-	**1**	-
	3	1	**9**	6	**3**	1	**9**	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 2007 will be released to the income statement when the underlying forecast transaction occurs and affects profit or loss. However, where the underlying forecast transaction is a purchase of a non financial asset (for example, 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.

Notes to the Financial Statements (continued)

34. Financial and capital risk management (continued)

(c) Derivative financial instruments and hedging activities (continued)

Derivative hedging instruments (continued)

(ii) Forward exchange contracts not in designated hedging relationships used to hedge exposure of other payables and receivables recognised in the balance sheet.

Breaches

During the year we have not breached any of our agreements with our lenders.

Notes to the Financial Statements (continued)

35. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2007 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 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 being 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.

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 $746 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

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. Refer to note 27 for further details.

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.

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, notes and additional disclosures included in the Directors' Report designated as audited, of the Telstra Entity and the Telstra Group set out on pages 2 to 151 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 2007 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2007; 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).

For and on behalf of the board

Donald G McGauchie
Chairman

Solomon D Trujillo
Chief Executive Officer and Executive Director

Date: 9 August 2007
Sydney, Australia

Independent Audit Report to the Members of Telstra Corporation Limited

We have audited the accompanying financial report of Telstra Corporation Limited and the entities it controlled during the year ended 30 June 2007, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report" on pages 20 to 51 of the Directors' Report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 "Presentation of Financial Statements", that the financial report also complies with Accounting Standards and Interpretations published by the International Accounting Standards Board. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 "Related Party Disclosures".

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Telstra Entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Telstra Corporation Limited is in accordance with:
(a) the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of Telstra Corporation Limited and the consolidated entity as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and

(b) other mandatory professional reporting requirements in Australia.

2. the financial report also complies with Accounting Standards and Interpretations published by the International Accounting Standards Board as disclosed in Note 1.

3. the remuneration disclosures that are contained on pages 20 to 51 of the Directors' Report comply with Accounting Standard AASB 124 "Related Party Disclosures".

Ernst & Young

Ernst & Young

Mirco Bardella
Partner

9 August 2007
Melbourne, Australia